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SUSPENSION OF UNITED STATES EXPORTS OF HIGH TECHNOLOGY AND GRAIN TO THE SOVIET UNION

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

TO ASSESS THE EFFECTIVENESS OF TRADE MEASURES TAKEN BY THE PRESIDENT UNDER AUTHORITY PROVIDED BY THE EXPORT ADMINISTRATION ACT OF 1979

AUGUST 19 AND 20, 1980

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CONTENTS

TUESDAY, AUGUST 19, 1980

	Page
Opening statement of Chairman Proxmire	1
Excerpts of testimony by Lt. Gen. Eugene F. Tighe, USAF, Director, Defense Intelligence Agency, before the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee, June 30, 1980	2
Opening statement of Senator Garn	3
Opening statement of Senator Stevenson	5
Remarks by Senator Stevenson, Chairman of the Subcommittee on International Finance, at a meeting of the International Trade Club, Chicago, January 16, 1980	6
Opening statement of Senator Kassebaum	11
Opening statement of Senator Morgan	11

WITNESSES

George McGovern, U.S. Senator from the State of South Dakota	12
American farmer penalized	13
Embargo has zero effect	14
Serious meat problem for decades	16
"Results Are The Only Excuse For Activity"	18
Return to the American market?	20
J. James Exon, U.S. Senator from the State of Nebraska	23
Possible causes of disturbances	23
Food as an economic weapon	24
Roger W. Jepsen, U.S. Senator from the State of Iowa	24
Being soft on communism	25
Grain from other countries	27
Russian windfall profit	29
Prepared statement	30
Shortage effect in 1981	33
Preferred customer	35
Edward Zorinsky, U.S. Senator from the State of Nebraska	35
Circumventing the embargo	36
Isolated 4 million tons of wheat	38
Prepared statement	38
Contradictory figures from the USDA	41
Russians not paying a price	42
Jack Felgenhauer, president, National Association of Wheat Growers	43
Wheat prices fail to recover	44
Prepared statement	45
S. 2855	47
Ray Schaub, vice president for legislative affairs, National Corn Growers Association	48
U.S. reputation affected	48
Prepared statement	49
Dan McGuire, administrator, Nebraska Wheat Committee, Lincoln, Nebr	43
Serious State economic conditions	52
Prepared statement	53
Wheat price survey results	54
Chase Econometrics, study submitted for the record	56

Dan McGuire, administrator, Nebraska Wheat Committee, Lincoln, Nebr.—Continued
Prepared statement—Continued
Chase Econometrics, study submitted for the record—Continued
Agricultural impact of higher wheat exports:
1980–81 marketing year 56
1981–82 marketing year 56
Economic impact of higher wheat exports on the U.S. economy:
1980–81 marketing year 57
1981–82 marketing year 57
Panel discussion:
Farm exports set new record 57
Total U.S. wheat exports same as last year 59
Soviets pay $1 billion more 61
Jerry O'Dowd, president, AGRI Industries, West Des Moines, Iowa 43
Failed to recognize impact of embargo 62
Prepared statement 63
Panel discussion:
Undercutting presidential decisions 66

WEDNESDAY, AUGUST 20, 1980

Opening statement of Chairman Proxmire 69
Opening statement of Senator Tower 71

WITNESSES

Robert Dole, U.S. Senator from the State of Kansas 72
Farmers not told 73
Never a total embargo 73
Impact on the taxpayer 76
Rudy Boschwitz, U.S. Senator from the State of Minnesota 76
Aggressive actions by the Russians 77
Embargo not a fair trade-off 79
Panel discussion:
Humiliating the President 80
Lifting embargo on other countries 81
U.S. companies sell foreign grain to Soviets 82
Other ways of protesting 83
Tough economic sanctions 85
Use foreign aid as a tool 86
Repeal the War Powers Act 88
Breach of trust 90
Farm economy our greatest strength 93
Increased defense spending 93
Worldwide shortage of wheat 96
U.S. grain leaked to Soviets 97
Bob Bergland, Secretary, Department of Agriculture, accompanied by Dale Hathaway, Under Secretary, and Howard Hjort, Director, Budget Policy Analysis and Planning 98
Economic sanctions more than symbolic 99
Extreme increase on meat imports 101
Farm prices rebound 104
Prepared statement 105
The impacts 105
Predictions and the results 106
Cooperation with other exporting nations 107
1980 Soviet grain supplies 107
Domestic impacts 108
Agricultural outlook 109
"What if" 109

READEX FICHE

Bob Bergland, Secretary, Department of Agriculture, accompanied by Dale Hathaway, Under Secretary, and Howard Hjort, Director, Budget Policy Analysis and Planning—Continued
Prepared statement—Continued
Tables and charts: Page
Average weekly price: Chicago, Corn: Yellow No. 2 111
Average weekly price: Chicago, Soybean No. 1 112
Average weekly price: Kansas City, Wheat: Hard winter No. 1 113
Table 1—U.S. agricultural trade balance 114
U.S.S.R. imports of grain by source 115
U.S.S.R. monthly hog numbers, socialized sector 116
U.S.S.R. monthly cattle numbers, socialized sector 116
Monthly hog marketing for slaughter 117
Monthly cattle marketing for slaughter 117
Hogs for slaughter, average liveweight 118
Cattle for slaughter, average liveweight 118
Richard N. Cooper, Under Secretary for Economic Affairs, Department of State 119
Action on the diplomatic front 119
Sanctions of high technology 121
Prepared statement 122
Grain 123
Phosphates 123
High technology 124
Homer E. Moyer, Jr., General Counsel, Department of Commerce 124
Prepared statement:
Agricultural controls 125
Compliance 126
Other restrictions 127
Impact on trade 128
Panel discussion:
Effect on grain growers 129
Meat rationing 131
"Whose figures do we trust?" 133
Kama River sales problem 135
Social unrest and disobedience 138
Poland major exporter of meat to Soviets 141
Selling wellhead covers to Russia 143
Investigation performed by GAO 144
Impressive case for continuing the embargo 148

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

American Farm Bureau Federation, comments on President Carter's grain embargo supplied for the record 148
National Farmers Union, statement relative to Federal interference with agricultural exports submitted for the record by Robert J. Mullins 150
Statement of Gregory Grossman, professor of economics, University of California, Berkeley 152

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SUSPENSION OF U.S. EXPORTS OF HIGH TECHNOLOGY AND GRAIN TO THE SOVIET UNION

TUESDAY, AUGUST 19, 1980

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:05 a.m. in room 5302, Dirksen Senate Office Building; Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Stevenson, Morgan, Garn, and Kassebaum.

STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

In the Russian invasion of Afghanistan which began 9 months ago and continues today, the Red Army is attempting to crush every sign of resistance by the people of Afghanistan as it did in Czechoslovakia in 1968 and Hungary in 1956 and throughout Eastern Europe after the Second World War.

The struggle to defeat tyranny continues also. Free people everywhere are called to demonstrate their support for the common cause of human freedom. On January 4, President Carter took a firm stand on behalf of the American people against Soviet aggression. He announced America's readiness to provide military assistance to the countries of Southwest Asia, and he stated that U.S. trade with Russia would be severely restricted. Sales of high technology and other strategic items to Russia were suspended. Russian fishing rights in U.S. waters were curtailed. The sale of the 17 million tons of grain the Russians had ordered, in addition to 8 million tons covered by the 1975 agreement, was suspended.

As the President said, "neither the United States nor any other nation which is committed to world peace and stability can continue to do business as usual with the Soviet Union."

I supported the President's actions wholeheartedly then, and I support them now. What could we do about the bloody Russian aggression in Afghanistan? I do not see how in good conscience the United States can resume business as usual with Russia.

The principal purpose of the hearings today and tomorrow is to assess the effectiveness of trade measures the President took. They were imposed under authority provided by the Export Administration Act of 1979, legislation developed by this committee last year. The committee has a strong interest in the effective implementa-

tion of the Export Administration Act and especially in this case to see that the Russians pay a significant price for their aggression.

The committee has received some conflicting reports, and this is a good occasion to get the best information on the record. The committee has also had referred to it S. 2855, a bill to rescind the embargo on grain sales to Russia.

We'll be hearing testimony on that proposition, as well as conducting oversight of the Export Administration Act. At this point I'll insert in the record some documents the Defense Intelligence Agency has provided in declassified form for the committee's use.

[The information follows:]

EXCERPTS OF TESTIMONY BY LT. GEN. EUGENE F. TIGHE, USAF, DIRECTOR, DEFENSE INTELLIGENCE AGENCY

IMPACT OF U.S. ECONOMIC SANCTIONS

Soviet trade with the United States has focused heavily on grains which make up about 75 percent of the total value of U.S. exports. The balance is mostly advanced industrial equipment. Two-way trade in 1978, the most recent year for which final data are available, totaled $2.8 billion in U.S. exports and $600 million in imports of Soviet chrome and other metals. This trade accounted for only 10 percent of Soviet trade with the industrial West. However, these figures belie the importance of U.S. imports in fulfilling Moscow's long-term plans for specific sectors of the economy, particularly food.

The Soviet agreement to buy 8 million tons of grain annually under the Long Term Agreement and the massive purchases above this level were designed to support a new livestock and poultry industry. A better diet, with more meat and dairy products, is the cornerstone of Chairman Brezhnev's commitment to provide more consumer goods and a better living standard to the Russian worker. This plan reflected the leadership's painful realization that only more consumer goods, especially food, could provide the incentive for workers to increase output. U.S. sanctions were intended to deny the Soviets 17 million tons of grain, primarily livestock feed. Soviet efforts to offset U.S. grain sanctions thus far have proven fairly successful. In the July 1979–June 1980 marketing year, the Soviets are likely to import something over 80 percent of the amounts they had planned to buy. [Deleted.] Firm figures will become available later this summer.

Although most other exporters agreed not to sell the Soviets more than usual, private Argentinian grain traders have not followed the guideline. It now appears that their exports will be far higher than last year. [Deleted.] Additionally, Moscow is pressuring to [deleted] supply more grain by swapping domestic grain for imported U.S. supplies. Soviet activity on world grain markets has driven up prices considerably and they will end up having to pay about $1 billion more than U.S. commodities would have cost. This is a preliminary figure.

Even with these efforts, supplies will fall about [deleted] million tons short of original requirements. As a result, the country's tight food supply situation is becoming even worse.

Flour, bread, and potatoes are usually available, but all meats, dairy products, coffee, and sugar are scarce and consumers routinely wait hours in long lines for these products. People are increasingly turning to private markets, even for staples, where prices are three to four times higher than in state stores. This is forcing some people to spend as much as 75 percent of their income on food. The leadership's plan to provide more food as an incentive to workers has been in serious trouble, and when measured against specific quantitiative goals, has failed.

Senator PROXMIRE. My time is up. I'll get back. Senator Jepsen.

Senator JEPSEN. Thank you. General, on pages 19 and 20 of your submitted statement, you point out that the U.S. embargos and sanctions on exports have caused Moscow to claim that it would never consider the United States to be a reliable trade partner. My question is, do we care? Would you elaborate on that?

Lt. Gen. TIGHE. You asked me if they care?

Senator JEPSEN. Do we care?

Lt. Gen. TIGHE. I think that question is a little outside my purview.

Senator JEPSEN. Well, with regard to sanctions, what measures have the Soviets taken to avoid the potential effects of grain embargo? You indicated in your statement earlier that it had very little impact on them. They found additional sources and so on.

pages tightly bound

Lt. Gen. TIGHE. I stated earlier that it had a lowered effect of about 3 percent. But I think Dr. Collins or Frank Doe could talk to that.

Dr. COLLINS. Frank Doe is the expert on wheat.

Mr. DOE. We observed that the Soviets very quickly replaced most of the grain that we embargoed from other Western sources, mainly, Argentina, although Canada did export some wheat after our embargo. The Soviets will have a shortfall of between [deleted] million tons. That is out of a total supply of something on the order of 200 million tons and it will not appreciably affect their economic growth rate.

Senator JEPSEN. You would characterize the effect of the grain embargo then on the Soviet economy—on the Soviet Union generally as having a very minor effect, negligible?

Mr. DOE. Yes, sir.

Mr. JEPSEN. A drop in the bucket?

Lt. Gen. TIGHE. Here you're talking about real impact, not necessarily a psychological impact. It's had a gross psychological impact on the country.

Senator JEPSEN. Would you comment on that?

Lt. Gen. TIGHE. Yes. I think all the Western attacks on Soviet activity, including the Olympic Games boycott, have been a very heavy psychological blow to the Soviets. These actions question the legitimacy of the Soviet Union as a nation. I think they have a profound effect, these psychological, personal attacks on the people themselves.

Senator JEPSEN. this confuses me. In earlier statements, you said, for example, that generally the people of the Soviet Union, wholeheartedly support the Afghanistan invasion. They've replaced their sources of supplies, both of the grain and the technology, elsewhere. Who's so psychologically upset with this?

Lt. Gen. TIGHE. Whether or not the Soviets overcome being upset is the question, Senator Jepsen. They seem able to survive, regardless of their concern for their world image.

Senator JEPSEN. I'm trying to appreciate what you're saying. The thread woven in the fabric of what the committee has received isn't consistent. Who is psychologically upset with what we're doing?

Lt. Gen. TIGHE. The Soviet leadership certainly is, and we see clear evidence down to the and including [deleted]. They are seriously affected by the questioning of the legitimacy of Soviets actions, and in the process the legitimacy of the Soviet revolution. One example is questioning whether Moscow is a fit place to hold the Olympics. So this has a very profound effect on the nation's image as a stalwart leader, fomenting revolutions all over the world.

Now the fact that they overcome those attacks and ignore them publicly doesn't make the psychological impact any less.

Dr. COLLINS. Could I perhaps clarify the grain situation, Mr. Jepsen? On page 18 there is a comment:

"The Soviets agreed to buy 8 million tons of grain annually under the long-term program. This was to fulfill Chairman Brezhnev's commitment to provide a better diet for the Soviet citizen." The concern in the Soviet citizenry is with the lack of adequate supplies of meat and the lack of diversity in the diet. They have replaced most of the shortfall, but they're going to fall short by about [deleted] million tons, and most of that was feed grains for livestock.

Then in the middle of page 19 we're trying to convey that the tight food supply and the kinds of things that add variety to the diet and correspond to consumer requirements are going to continue to be in short supply. There's going to be no overall shortage of food to feed the population, but there will be a continued failure to meet the Brezhnev commitment to a more diversified, more palatable diet for the Soviet citizen.

Senator JEPSEN. That was the claim made at the time the embargo was imposed. The Soviets wouldn't be able to continue to expand their red meat program. Where I come from, we're having a hard time understanding all that. Not that we're not patriotic, but we found out that the claims presented are not exactly so with regard to that. Has the Soviet Union signed any grain agreements of significant duration within the last six months with any other country, possibly indicating a long-term shift in markets?

Mr. DOE. There have been no major long-term grain agreements, but they have negotiated some short- and intermediate-term agreements.

Senator JEPSEN. With whom?

Mr. DOE. With Argentina, Australia and Canada. [Deleted.]

Senator JEPSEN. Last week the Administration announced that the Soviets now could do business with American grain companies, as long as the American grain companies were doing business with everybody, except American grain growers.

What kind of psychological impact did that have that would devastate the Soviet Union?

Mr. DOE. I can't address that.

Dr. COLLINS. I don't believe we have a measure of the psychological impact, other than the fact that their discontent with respect to the variety of diet and the availability of meats is going to continue. The leadership is going to continue to fail to meet those expectations.

Lt. Gen. TROSS. A measure of that discontent is the recent strike at the Togliatti truck plant, which was undertaken in direct protest against the variety of food that is available.

The CHAIRMAN. I might say that all of us recognize or should recognize the plight of the American farmer. The fact is that the parity index now is lower than it's been in any year except 1982, since we had a parity index in 1914. The American farmer works tremendously long hours at a big investment. He's enormously increased his productivity. He represents by far the sharpest difference between this country and the Soviet Union in efficiency. The fact is that only 3 percent of our people are on the farms. In the Soviet Union, 30 percent of their people are on the farms, 10 times as many—more than 10 times, because they have a bigger country, and we produce 20 percent more food than they do.

So the American farmer, who has been immensely productive and contributed more than any other economic group to the strength of this country, is suffering an income which this year is about half the usual and it's usually about two-thirds that of people off the farm. And there's no question about it, this embargo hurts the American farmer. He can't escape from it. At the same time, and the evidence that we have before the committee that I've seen, and we'll have that evidence laid out as clearly as we can, a little later this morning, indicates very clearly that this embargo does have an adverse effect on the Soviet Union and a punishing effect on them. That's the reason, as I've said earlier in my statement, that I do support the President's call for the embargo of grain to the Soviet Union.

Senator Garn.

OPENING STATEMENT OF SENATOR GARN

Senator GARN. Thank you, Mr. Chairman. As I stated last winter because I agreed with the President, I would support the grain embargo, the boycott of the Olympics and the embargo of high technology transfer to the Soviet Union. I agree with what the chairman has said about the seriousness of the Soviet invasion of Afghanistan, but I would only support the grain embargo if it were effective against the Soviet Union and it would not severely cripple the American farmer. However, because of the guidelines set by the President for the American grain companies for their sales to the Soviet Union, as well as the actions of other grain-producing countries, many of whom are our allies and our friends, the embargo simply has not been effective. In short there are a variety of loopholes in the current embargo, many wide enough to drive a grain truck through.

It is clear that the American farmer is paying a severe price for an embargo that is having relatively little effect. I believe that a grain embargo can be much more effective against the Soviet Union than it has been, but only if the administration has the will to put some teeth into it. With a combination of will and the

proper incentives directed toward the other grain-producing countries, the embargo could be made to work.

I know the farmers of America are as patriotic as any other group in this country and would support an effective grain embargo that actually hurt the Soviet Union, but unless this is the case, I cannot support continuation of the present embargo. It seems to me that it was a fine idea to begin with. If we made it tough enough to work and were hurting the Soviet Union, then it would be worth doing, but it makes no sense to me to cut off our nose to spite our face and hurt the American farmer, while the enbargo has very little effect on the Soviet Union.

I am also disturbed that we made such a point of the grain embargo and the Olympic boycott and have done so little to stem the flow of high technology items. Despite the revision in our practices, we have not yet seen fit to cut off technology items to the Warsaw Pact nations. It's an insult to my intelligence, and I think to the American farmer, to assume that a high technology transfer boycott on the Soviet Union is going to be effective and if it does not also effect the various Eastern European Communist nations who, otherwise will just transship that high technology equipment to the Soviet Union. I am talking about the Kama River truck factory. I am talking about ball bearings. I am talking about the continued training of young Soviet scientists in American universities in high technology skills, I find it incredible, that after we have had the so-called greatest threat to world peace since the end of World War II we continue to train the Soviets in technology to that will hurt us.

It seems to me we have made far too much of the grain embargo. We have not made it effective. I would still like to be able to support the embargo, but we have not put teeth into it. Neither have we put teeth into preventing the transfer of high technology items, and I am afraid, that generally speaking, business goes on as usual with the Soviet Union.

I would hope these hearings would produce a great deal of information that could make it possible to pursue embargoes and boycotts to punish the Soviet Union for their naked aggression in Afghanistan.

The CHAIRMAN. Senator Stevenson.

OPENING STATEMENT OF SENATOR STEVENSON

Senator STEVENSON. Thank you, Mr. Chairman. You and Senator Garn are to be commended for holding these hearings. These are not the first hearings in this committee on this subject. The International Finance Subcommittee held oversight hearings on the embargo on January 22 and March 22. Those hearings covered the full gamut of export restrictions imposed as a response to the Russian aggression in Afghanistan. The witnesses, most of them, all of them, as I recall, representing no special interests, agreed unanimously that unilateral trade sanctions seldom achieve their intended results and once imposed are difficult to remove. I invite all who are interested in this subject to examine this most exhaustive subcommittee hearing record as a partial reference. The embargo on grain sales to Russia has no positive impact on Russian behavior. It punishes the American economy severely, as more

evidence of America's impulsive and quixotic conduct of foreign policy. It costs America more of its already diminished authority in the world, as more evidence of its unreliability as a supplier of goods and services.

The Nation's competitiveness is damaged still more and by its own Government. The farmer is only the most visible of the victims of these sanctions, and he has mechanisms to protect him. It is the taxpayer and the entire economy which pays the largest part of the price.

I opposed the President's action in January when he took it and before he took it, when I was consulted by the White House. Mr. Chairman, I ask unanimous consent that a speech which I gave in January discussing economic sanctions at some length, be placed in the hearing record following these remarks.

The CHAIRMAN. Without objection, so ordered.

[Copy of the speech of Senator Stevenson follows:]

USING U.S. RESOURCES FOR POLITICAL PURPOSES AS AN ALTERNATIVE TO ECONOMIC ACTS OF WAR

Remarks by Senator Stevenson, Chairman of the Subcommittee on International Finance, Committee on Banking, Housing and Urban Affairs, at a meeting of the International Trade Club, Chicago:

Russian imperialism did not begin in Afghanistan. It began 1,000 years ago. In our lifetime it could realize the dreams of the Czars for warm water ports—and ambitions, inconceivable in their days, for global supremacy based on effective control of world fuel supplies.

With a fictitious invitation and the pretext of American imperialism, the Russians invaded Afghanistan and destroyed that nation as a buffer zone. They may be preparing to extend their power by force through Pakistan and Iran to the Persian Gulf. The instabilities in the region, the apparent irresolve of the United States and the seeming futility of efforts to work cooperatively with the United States upon strategic arms limitations, peace in the Middle East and other enterprises may have tempted the Russians beyond forbearance and undermined whatever forces for moderation exist within the Politburo.

Six years ago the U.S. subsidized Soviet wheat purchases. In one year during the heyday of detente the U.S. offered the Soviets about $1 billion in credits for the purchase of nonagricultural commodities. At Helsinki it offered the Soviets a Western imprimatur on Soviet domination of Eastern Europe in exchange for lip service to human rights. No sooner were credits extended than the game of "linkage" began. The Soviets were denied access to official credits and U.S. markets upon most favored nations terms because of their emigration policies. During the darkest days of Stalin's repressions the U.S. protested little. It protested strenuously the repression of human rights by the Soviet Union, as it began to respect them in the 1970's. Traumatized by Vietnam, the United States turned its back to the victims of Russian aggression in Angola—and invited more. Now American foreign policy is lurching away from East-West trade and President Carter's crusade for human rights and nuclear nonproliferation. The build-up of NATO forces in Western Europe yields to a renewed interest in rapid deployment forces, and we hear ominous reports of plans to mine the Persian Gulf. Russian imperialism is rediscovered. Its defeat is this year's moral equivalent of war.

The incoherence of U.S. policy in the 1970's dismayed friends and bewildered enemies. If the end of innocence is followed by overreaction to the Russian aggression against Afghanistan, the world will remain unimpressed, except by our continued ability to damage its security and our own welfare. The world will make its accommodations with the Soviet Union. Russian imperialism will continue its march, tempted by our decline, filling the cracks left by our default, unmoved by any prospect for the peaceful accommodation of conflicting interests by great powers.

American strategy toward the Russians would wisely move on parallel fronts. It would keep alive possibilities for political accommodation. It would also demonstrate that Russian aggression is expensive. It would offer incentives to responsible conduct, as well as disincentives to irresponsible conduct. The Russians are a minority in their restless empire. An arthritic economic system, a heavy arms burden, real

and imagined threats from within and on all Russia's borders, a dark and bloody history create anxieties which require some understanding.

Our long-term objectives should include an effort to increase the world's supply of energy. Most fossil fuels lie outside the sedimentary basins of the Persian Gulf, the North American continent and Russia. They have not been explored and developed. We have capital and technology. Yet we perpetuate our dependence on undependable and expensive oil from the Middle East, ever undermining the efforts of the World Bank.

The U.S. should recognize that step by step diplomacy was doomed from the start and seek an overall settlement of the conflict in the Middle East based on the exchange of territories occupied by Israel for international recognition and guarantees of its peace and territorial integrity. Nothing has been so destabilizing and destructive of U.S. interests in the region, especially Iran, as the continuing Mideast War.

Our military power in South West Asia is limited by perceptions of the United States as a neo-colonialist power and an agent and architect of Israeli power. A similar perception of the Shah helped bring him down. No governments in the region, except Egypt, dare to unequivocally embrace American power or military assistance. And Egypt's influence in the Muslim world has been undermined by its association with Israel, the U.S. and a peace process which produces no peace and continues to neglect the Palestinian right of self-determination.

The events in South West Asia give us a lesson in the limits of U.S. military power in a resource hungry, interdependent and newly liberated world. Our sophisticated weapons are of little avail in the streets of Teheran or Kabul. They are not relevant to passions generated by the failures of modernization, the embittered revolution of rising expectations, ideas of Muhammed and Marx and dangerous men with access to the mass media. Supply lines are shorter for the Russians. Kabul is on the other side of the earth from the U.S.

Within the limits of its military power, the United States can establish power in the region and prepare for contingencies. It should establish bases for the supply of U.S. and friendly forces. In addition to Diego Garcia such bases might be established in Egypt and Somalia. Marines should be placed on U.S. naval vessels in the Indian Ocean.

Because overt U.S. military assistance is unwelcome in the region, the United States should organize an international effort to aid the rebel Afghans and the Pakistanis. That international effort should include nations from the region, as well as China and Western Europe. The situation offers the U.S. a chance to organize the world community against aggression—as it did not in Angola—and on the side of Islam. This aid effort must take into account India's sensibilities about Pakistan and the danger of Soviet retaliation. We should not overdo it. The aim should be to produce arms, supplies and, for Pakistan and Turkey, substantial assistance for their battered economies. Until international efforts along these lines are organized, other ways of supplying U.S. arms and supplies to the Afghans and Pakistanis must be utilized.

The capabilities of U.S. intelligence services should be strengthened. Greater efforts should be undertaken through the V.O.A. and other media—to reach the world's multitudes with the truth about our objectives and those of the Soviets. The U.N. and other platforms, the mass media included, should be utilized discreetly to build up resistance to Russian expansionism in the name of nationalism and nonalignment. Afghanistan gives us some opportunities to get off the defensive and align ourselves with the Third World.

Other measures are called for. But there are also limits to our economic power. The United States has cut off cultural exchanges, cut off official credits, denied the Soviets MFN, and now embargoed sales of food and other commodities. Sales of technology with military potentials have been embargoed for years. The U.S. has abandoned the old policy of even-handedness in favor of accommodations with China. We have deferred action on the Salt treaty. We have done everything we can think of short of cutting off all trade and boycotting the Olympics. And those possibilities are under active consideration.

Little is left, short of military action, for the next time the United States is moved to make the Soviet Union pay a price for its transgressions. Soviet policies are more likely to be influenced constructively by mixed prospects for improved relations and Soviet economic development than by prospects for economic warfare, undiluted by possibilities for peaceful progress on any front. That which powers may be persuaded to do by old-fashioned and now neglected methods of quiet diplomacy can be made the more unlikely under threat when national pride is on the line. When the House of Representatives linked trade with the U.S. to free emigration from the U.S.S.R., emigration plummeted. During the pendency of SALT II, emigration in-

creased. When it appeared dead, Russia invaded Afghanistan. They may conclude that they have little to lose by aggression—and much to gain.

The purpose of the embargoes is not to compel withdrawal of Russian troops from Afghanistan. The purpose is to signify that Russian adventurism in the world has a price. But we also pay a price with little prospect of influencing the Russians constructively.

The most immediate cost of the grain embargo for taxpayers is in excess of $2.5 billion to purchase grain destined for Russia. The longer term costs are much higher. Land set-asides may be reinstated, that is to say, payments to farmers for the non-production of corn. Large public expenditures for price supports and storage costs may also be necessary for some time. Russian livestock, if destroyed, would take years to replace. The movement toward a market determined farm price has been interrupted. The taxpayers could be required to support the farmer for a long time. The Federal expenditures are the smallest part of the cost.

Embargoes, like the freezing of Iranian assets, feed the general impression in the world that the United States is impulsive, unpredictable and an unreliable supplier of goods and services. Increasingly, nations come to the United States for the purchase of food and other goods and services only as a last resort. Russian managers with five year plans will not come back to the U.S. market at the risk of having their plans interrupted by embargoes. Eastern Europeans and other Russian allies will be pressured to avoid U.S. products. American companies, recognizing these facts of life, are already escaping the caprice of American policy by locating plants overseas. They can avoid embargoes by manufacturing with foreign sourced materials in foreign subsidiaries. Embargoes against exports of U.S. goods, therefore, produce exports of U.S. jobs and capital.

The embargoes will have an adverse effect on the U.S. balance of payments. The dollar is weakened by these actions. They may require taxes and Treasury borrowings to support the farmer and affected agribussinesses for a long time. The federal deficit for fiscal year 1980 may be increased by 10 percent, causing higher interest rates than otherwise. If the farmers are to be protected, other industries adversely affected could similarly demand relief. The economic results for the United States are difficult to quantify. But they include more inflation, economic stagnation and unemployment. The burden falls heaviest on the American public in general—not the American farmer in particular. He has mechanisms, and American politics, to protect him.

As for the Russians, they will liquidate some livestock and poultry and look for grain elsewhere. The immediate effect of the embargo is to place more meat on the Russian plate. The Russian consumer may not feel the effect of the grain embargo for a year. Longer term effects depend on weather in Russia and Eastern Europe and the success of Russian production efforts.

Our experience indicates that the Russians respond to embargoes by devoting resources to the development of their own capabilities. Deny them equipment for the production of industrial diamonds, for example, and they become the world's largest producer of industrial diamonds. They are already the world's largest oil producer. The denial of equipment for the production of oil would, if successful, reduce world oil production temporarily—which hurts the United States and all oil consumers. The Russians divert resources from lower economic priorities and redouble their efforts to produce whatever is denied them. What they cannot supply themselves, they buy from our competitors. With their gold and oil increased still higher in value by these actions, the Russians have hard currencies to spend. They are one of the world's best credits.

Embargoes of more high technology could hurt the Russian economy. Perhaps the Administration will identify such technologies which can be embargoed effectively without undue damage to our own economy. In general, embargoes are difficult to enforce. Even the COCOM system which has the support of our allies, has not always been effective as a means of controlling exports to the Soviet Union of high technology with military potentials. Wheat, corn and soy beans are not, like computers, easily identified by source of origin. Transshipments and substitutions of shipments are possible in violation of regulations and promises. Not all grain exporters will even promise compliance; some of them have been treated shabbily by the U.S. in recent years. The nonagricultural commodities embargoed, except spare parts, are virtually all available from competitor nations eager to produce, sell and pay the oil bill. They do not share the full extent of President Carter's moral indignation, or his conviction that embargoes are an effective means of bringing Russian imperialism to heel. They will give some lip service to our efforts and go on doing business with the Russians, picking up our business in the bargain.

The cost of the embargoes for the U.S. is high; their effect on the Soviet Union problematical. They put the United States on a slippery slope. Such actions as

embargoes against the Soviet Union and the freeze of Iranian assets once taken are difficult to undo. They await some undivided sign from the Russians—but conciliatory signs are made the more difficult for Russia by the implication that it is yielding to pressure. If the U.S. were to lift embargoes without some sign it could signal its concession to Russian intransigence. Embargoes, like the freezing of assets, are economic acts of war. This economic war will not be ended by Russian or American capitulation.

What counteractions the Russians will take to demonstrate their contempt for the embargoes, I cannot say—except that some will come. These could include the withdrawal of deposits from American banks, as well as the discontinuation of business with other U.S. firms in a general hardening of the line. The U.S., having deferred Senate action on SALT II, has freed the Russians to deploy missiles without limit and without restrictions on their ability to conceal them. The objects of our solicitude—the unfortunates seeking to emigrate from Russia—will pay for our actions. The Russians have already vetoed the resolution for sanctions against Iran by the United Nations. They could call for and resume their march. Such hurt as is sustained by the people of the Soviet Union will be laid to American imperialism and produce more unity and resolve in the U.S.S.R. The U.S.-U.S.S.R. relationship will spiral downward without some unfamiliar acts of statemanship on one side or the other to break the spiral.

No end is in sight. And we have played out almost all our nonmilitary string.

In the continuing competition between the U.S. and U.S.S.R. it would be wise to act with more predictability and respect for our own economic interests. It would be best if our actions were governed by some strategy and a clearer perception of Russian interests. That strategy should include an appropriate use of all our resources for our political pupoees. In a contest for survival, one is not overly fastidious about the weapons. We should use them all—but not upon ourselves.

The United States has potentially more control over world food supplies than Saudi Arabia has over oil, but we have never moved to use that power effectively. Irrespective of Russian provocation, the United States should develop a food policy for an era of chronic poverty, hunger, malnutrition and political instability. The Administration's recent report on hunger suggests the magnitude of the suffering in store for the world and the challenge to the United States. The Russian invasion of Afghanistan offers an opportunity to adopt a food policy more promising than a combination of expensive price supports, intermittint embargoes and the stealthy purchase of U.S. grain on advantageous terms by hostile nations.

The free market has been an article of faith among farmers and in the Congress. The truth is that the market is not free. It is run by five or six multinational trading companies and their subsidiaries. Like the multinational oil companies, they buy and sell in the world to enchance their profit, not our national interest.

Other nations, both producers and consumers, lacking the luxury of large surpluses and internal markets have public agencies to manage the marketing of grain. Canada and Australia have wheat boards which are their exclusive exporters. The centrally planned economies have government purchasing commissions which are their exclusive importers, determining their needs and negotiating all purchases. An estimated 80 percent of U.S. wheat exports are purchased by state trading corporations. The U.S. which alone has the power to control world food supplies and prices has multinational trading companies—and embargoes.

We should seriously consider making the Commodity Credit Corporation our own national grain board with exclusive authority to market U.S. wheat and feed grains in the world. We will continue to have the world's largest exportable surpluses. In this hungry and dangerous world the United States disarms itself uniquely and unilaterally by leaving the sale and distribution of American food to multinational traders and their foreign government customers. At least, the CCC should be made the exclusive agent for grain sales to the Communist nations.

Under the law, the CCC could have taken over the Russian grain stocks, scaled down the sales step by step, making it clear that the ultimate result could be an embargo. The policy could have been carried out, giving markets time to adjust and the Russians time to adjust to the carrot, as well as the stick. The President could have embargoed private grain sales and through the CCC retained control over grain sales to the U.S.S.R. This would have avoided the crisis which has damaged the U.S. economy and deprived us of an opportunity to use food to influence the Soviet Union. Profits on the sale of food to Russia might have been increased, even as we brought our political interests into play. This mechanism still offers a means of demonstrating rewards to be achieved by responsible behavior, at the same time the United States demonstrates that aggression has it price. The CCC must dispose of these stocks somehow. Only in the Russian market, now denied us, can it sell

without depressing grain prices. It remains to be seen whether or when the Russians let us enter their markets.

Until OPEC and Iran, farmers have generally resisted the use of grain as an instrument of foreign policy. While resenting their own impotence in the marketplace and the unfair practices of foreign governments, both competitors and customers, they were not convinced that a U.S. marketing agency would protect them. Suddenly with OPEC oil prices, the seizure of the American Embassy in Teheran and the invasion by Russia of Afghanistan, farmers have begun to see a future filled with embargoes. They may be persuaded now that CCC controlled grain sales to the Communist governments are in the farmers' interests and the nation's.

Russian imperialism has been on the march for many centuries. Under Communism the Russians perfected the police state and gave their totalitarian society and their designs upon the world an ideological cover. Action by the United States to resist this imperialism is overdue. The real issue is over the kind of action. And the danger is that we will punish ourselves for Russian transgressions and overact, harden the lines, and with like reactions on the other side, move towards world chaos, even war. There are possibilities for constructive action in these circumstances. But they require an unfamiliar statesmanship which presses restraint, as well as action.

Senator STEVENSON. No other nation looks upon the purchase of its goods and services as a privilege to be withdrawn as a sign of disfavor. Time has now demonstrated in the United States that economic sanctions are counterproductive, but one self-inflicted wound does not prescribe another. Legislation before this committee would embarrass the President, undermine the credibility of his office and signal American capitulation to the Soviet Union.

Congress would be wiser to resist this recurring temptation to meddle in the conduct of foreign policy. Congress would be wiser to consider alternative authority which could advance our political and economic interests in the world. And there are ways of demonstrating some resolve—effectively demonstrating some resolve in the face of an ancient Russian imperialism. To my mind at least, that imperialism did not begin in Afghanistan, it began 1,000 years ago. It might have been resisted in Angola, but the Congress did not resist this temptation again. Congress interceded there.

The Commodity Credit Corporation could be made the sole agent for sales of grain to Russia or to other embargo nations and nonmarket countries. The CCC could sell grain in quantities and at prices which we, not the Russians, determine. The availability and price would depend upon behavior.

We could also license agricultural exports to Russia but charge a fee for such licenses. The authority to charge such fees already exists under the Export Administration Act. Under either approach, the United States, not its competitors, could get premium prices for grain sales and adjust the levels of sales to reflect both political and economic developments.

Such alternatives offer incentives to good behavior, as well as disincentives to irresponsible behavior, instead of playing out the entire economic string as we did, leaving the Nation with nothing now, except force, for the next time it is tempted to show resolve. The Nation is, by the exhaustion of such nonmilitary measures, left helpless, just as it was at the peak of the Cold War and right after the Russian invasion of Czechoslovakia.

With some originality, Mr. Chairman, and some resistance to that temptation to interfere and also play politics with foreign policy, we might serve all of the nation's interests, its economic as well its political interests. None are served by these sanctions.

The CHAIRMAN. Senator Kassebaum?

STATEMENT OF SENATOR KASSEBAUM

Senator KASSEBAUM. As a cosponsor of this legislation, Mr. Chairman, I would just like to briefly say that one, I think Senator Stevenson has some interesting suggestions to make, but I do not regard it as playing politics with foreign policy, which I think is dangerous, nor capitulation. I think it's a realization that the embargo is not successful. An embargo is seldom successful, unless all of the other major exporting countries are joining with you. This is not the case now. It's always difficult to control shipments of grain, once they leave our shores, and I think it's only being realistic to now come to terms with the present situation.

I must say I think you've got some interesting suggestions to make, Senator Stevenson, but I think that the bill we are proposing is just simply recognition of the fact that the grain is going to the Soviet Union anyway, and what other means then we can advance will certainly be of benefit to us when we have to deal in the future with handling such a situation.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Morgan.

STATEMENT OF SENATOR MORGAN

Senator MORGAN. Thank you, Mr. Chairman.

Mr. Chairman, I agreed with the President when he imposed the grain embargo, as well as the other sanctions on high technology and other items. I really felt that as regrettable as the action was, that it was necessary, and the only action available to us to show our concern and the concern of the world for the naked aggression of the Soviet Union. And I believe, Mr. Chairman, that the imposition of these sanctions, along with the cancellation of the Olympics, as regrettable as that was for the young people who worked so hard to participate, and the mustering of world opinion against the aggression in Afghanistan, had its effect.

I'm not sure how much further the Russians would have gone had not this country immediately taken such action and brought world opinion to bear. It's problemmatical whether they would have gone across that narrow strip of land in Pakistan or Iran that leads to the Arabian Sea.

And so in the absence of any other conceivable action, short of military action, I don't know anything else that the President could have done, and I supported him then, and I support him now. I think it has sent a message to the Soviet Union that we will not stand idly by and sanction by our silence, aggression on the part of the Soviet Union.

How effective it's been is a question that I don't know. There is conflicting evidence, and I'd be interested to hear my colleagues and others who will testify about the effectiveness of it. I don't believe that we can sit back in this nation and refuse to do anything, because some of our friends, and I think they are friends, who are closer under the gun than we are, may not always support us wholeheartedly or completely in their actions.

It is quite a price for the American farmer to pay. I know too, as my colleague from Illinois has pointed out, that the American taxpayers have shared in a great part of it. It nevertheless has hurt the farmers of America, and I hope that we can relieve even

more of that hurt. But it's my own opinion that the taxpayers of this country and the firms of this country are willing to make some sacrifices to show our displeasure at the naked aggression, which seems to continue, by the Soviet Union.

As I said, I would be interested in listening to all of the testimony with regard to the effectiveness of it. I would be awfully reluctant, I've already pointed out to my colleagues, to try to second-guess the President or to involve the Congress in foreign affairs more than we already have. I think we should resist that temptation. I thought so, along, I think, with my colleagues, in considering the Angolan affair, and I'm afraid, and this is the point I would hope would be addressed, that if we find, in effect, that it has not been effective, can we even then under those circumstances, afford to, as the Senator from Illinois has pointed out, signal to the Soviet bloc, America's capitulation?

These are some questions that I'll be interested in. Admittedly, I go into this hearing with a preconceived position, but as we used to say in court, maybe some evidence could change that preconceived position. But it will, I think, take some substantial evidence on the part of the supporters of the bill for me to change.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator McGovern.

STATEMENT OF GEORGE McGOVERN, U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator McGOVERN. Thank you very much, Mr. Chairman.

Just in a word, the case against the grain embargo is that it hurts the United States more than it hurts the Soviet Union. That's really the thrust of what I want to say this morning.

I have a prepared statement which I will submit for the record, but I would just like to highlight some of these matters which I think put the issue in focus.

There is a notion in some quarters that trade with the Soviet Union is a favor to the Soviets. That is not the case at all.

I remember when President Nixon announced the first major grain sale to the Soviet Union. That wasn't hailed as a victory for the Soviets; it was hailed as a victory of our American salesmanship and the American economy; and it was. It was of enormous benefit to the farm producers of this country, to the shippers, to the merchant marine, to the railroads, the bargelines, to our balance of payments, and to the whole American economy.

The loss of that market has had the reverse effect. It has depressed U.S. grain markets, it has hurt the railroads, it has hurt the bargelines, it has hurt the merchant marine, it has hurt our balance of payments, and the impact on the Soviet Union has been much less.

I share your outrage, Mr. Chairman, over the Soviet invasion of Afghanistan. But if we are going to punish them, for goodness sake, let's find a way to do it that punishes them more than it does ourselves.

Let me try to make the case:

AMERICAN FARMER PENALIZED

Seventy five percent of everything we sell to the Soviet Union in dollar value is grain. It comes from the American farmer. So when we put on a grain embargo, we penalize primarily the American grain producer.

Farmers are 4 percent of the population of this country. So I would question at the outset a foreign policy tool that places the overwhelming burden of sacrifice on 4 percent of our people.

And, Mr. Chairman, we need these markets. The United States exports 1 out of 3 acres of everything we produce. The Soviet market is a big part of that—25 million tons. So when we cancel a market of that kind, we not only have the short-term impact of depressed farm prices and declining balance-of-payment positions, but we jeopardize the long-term reliability of the United States as a food supplier.

If we are going to be the world's principle supplier of food—and we are—that's an enormous national security, national asset for us which we should not jeopardize lightly.

The last six Presidents of the United States have been advised by the National Security Council that it is in the national security interests of the United States to sell to the Soviet Union, not only because it bolsters our economic position, but also because it places the Soviet Union in greater dependence on the United States.

And one would think, even from the standpoint of our nuclear safety which we worry about, that a major country would hesitate to bomb the principal export source of its food supply.

What the embargo has done is to try to discipline the Soviets into finding other sources of grain, and they are finding them. They are finding them in Argentina, which doesn't share our view of the embargo. The Canadians have begrudgingly cut back to about 3.8 million metric tons; I am convinced that will go to at least 5 million tons next year.

The Australians are shipping to the Soviet Union on the grounds that they made those commitments prior to mid-January and it is very difficult for us to know exactly when those commitments were made.

So through third countries, through transshipment, through other means, the Soviets are very clever at exploiting. They have been able to minimize the impact of this embargo.

And I might add, Mr. Chairman, and members of the committee, that some weeks ago the administration announced that it was perfectly proper for a grain shipping country based in the United States to sell grain to the Soviet Union provided it is a multinational company which purchases that grain in other countries.

Well, what kind of business is this, Mr. Chairman? If we are trying to tighten the noose on the Soviet Union, our own Government tells our multinational companies based in this country, "Go ahead and sell, as long as the grain doesn't come from Kansas or South Dakota or from an American source."

And knowing how grain moves around in international commerce, it is very difficult to close off the whole process of transshipment.

I don't think there is any question, as you yourself said, Mr. Chairman, that farmers are every bit as patriotic as any other

group of Americans. They work close to the soil, they know the values and the ideals of this country, and they are embarrassed even to publicly protest a matter of this kind if any case at all can be made that it serves the national interest.

But I spent a great deal of time with the farmers of my own State and talking with others on the phone across the country. I have joined in this legislation with Senator Dole and other Senators because I think not only farmers, but others who have looked at this situation, now realize that it is hurting us more than it is the Soviet Union.

The President obviously has the authority under the existing Export Administration Act to proclaim this embargo. He can do it on the grounds of foreign policy, he can do it on grounds of national security, or he can do it if he discovers there is a shortage here in our domestic market. He used those first two reasons.

But I would submit, Mr. Chairman, that it does not serve the national security or foreign policy interests of the United States to invoke an instrument that damages the American people and the American economy more than it does the Soviet Union's.

So, on that basis, while I am reluctant, as Senator Morgan has indicated, to interject the Congress into an essentially foreign policy matter, nonetheless, I have talked to the President personally about this matter and having urged him directly to drop the embargo. It seems to me, as the authors originally of the Export Administration Act under which the President has acted, we have the further legislative obligation to look at the operation of that act and where we think it is being violated, to act accordingly.

That is the purpose of this legislative proposal, simply drop the embargo.

One might, if you wish, not even argue the case that the embargo was a mistake at the outset. I think it was. I warned publicly 2 days before it was announced that it would be a mistake.

I testified before Senator Stevenson's Subcommittee on International Finance on January 22, saying the embargo was ill conceived and a mistake.

But leaving all that aside, one might concede, if you wish, that the embargo has served some useful purpose, but it no longer does, and the time has come to drop it. That is the appeal I would make to this committee.

EMBARGO HAS ZERO EFFECT

The CHAIRMAN. Senator McGovern, in your prepared statements you are saying that the embargo is having zero effect. Now you are telling us that it is hurting the Soviet Union less than it hurts this country.

Let me just pursue this before you respond to what seems to be a modification of your initial statement that you have prepared.

Senator MCGOVERN. It is more of a concession in the interest of tolerance to the chairman and other members of the committee.

The CHAIRMAN. You still feel it is having a zero effect?

Senator MCGOVERN. I still feel it has had very little impact.

I would feel, Mr. Chairman—obviously, I don't have any intelligence sources that aren't available to all other members of this committee. But look at the facts.

The Soviets purchase about 8 percent of their grain from the United States. If they didn't buy a nickel's worth of wheat or corn or soybeans from the United States, and they couldn't replace a bushel of it, that would result in a net drop of 8 percent of their present needs. They use that almost exclusively for feeding livestock.

So let's suppose that they couldn't buy anything from Argentina, they can't buy anything from multinational grain companies, they can't buy anything from Canada or Australia, and they lose that entire 8 percent of their total needs that they have been importing from us.

All that means is that they cull a few cattle, they liquidate some of their cattle numbers, which has the impact of putting more meat on the tables of Russian consumers for the short term. They are liquidating livestock, they are sending more meat into the markets.

Now, it may be 1 year down the road we would begin to feel some impact on the 8-percent reduction—

The CHAIRMAN. Senator McGovern, I have a question along that very line. It might help if you would respond specifically to it, because I do think there is some impressive intelligence available that challenges just what you are saying, and I want to give you the statistics and give you an opportunity to respond to them.

We have a report from the Department of Agriculture which says the following, and I quote:

> In June, beef production in the Soviet state industrial farms which accounted for 3/4 of USSR meat production was 16 percent less than a year ago. Pork was off 10 percent, total meat production was 11 percent less than it was for June of 1979. Culling took place in January and February when there was more meat available than the preceding year.
>
> By as early as May, June, and July the intelligence indicates that the meat availability is going down. For the first half of this year milk production is off 4 percent compared with the year before.
>
> The reductions are coming at a time when the Soviets have announced a plan to increase meat output from the year before.

We have a report from the Russian Research Center at Harvard which states that there is little difficulty in showing that indeed the Soviets have a very serious meat problem on their hands. They point out that meat production was up in January and February, in large part due to distress slaughtering the Soviets were forced to undertake because of the suspension of grain supplies after the Afghanistan embargo. The opposite situation occurred later in the year. In May 1980 meat production was down about 17 percent compared to May of 1979.

Prof. Marshall Goldman who wrote the report concludes, and I quote: "It is safe to assume that the grain embargo has added significance to the meat shortage."

We also have intelligence reports which you may have also seen which assert that the Russians will still face a significant shortfall, even though they have replaced most of the embargoed grain.

And the DIA, in testimony before the Joint Economic Committee in executive session, which was secret testimony which has been sanitized and unclassified, part of that testimony discloses that the embargo has cost the Soviets an estimated $1 billion to buy the grain that they needed beyond what the U.S. grain would have cost them.

The National Security Council estimates the Russians will come out 9 million metric tons below their goal for combined grain production plus imports.

Other evidence I have seen indicates that we have cut the amount available to the Soviet Union, not by 16 million tons, but by about 6 million tons; nevertheless, we have cut it.

With all of this evidence that the embargo has imposed a real resource cost, plus the psychological blow it cost them, how do you say it has no effect or little effect?

Senator McGOVERN. I would concede the effect that maybe it was a little too strong to say it has no effect at all. I think a better word is a minimal effect.

Mr. Chairman, what is the evidence—and this is a rhetorical question, I don't have the answer myself—that because there has been a 16 percent falloff in meat production in the Soviet Union this year, that that is the result of the embargo?

How do we know what weather factors——

The CHAIRMAN. I don't think that anybody contends that. I think the embargo has contributed to that, but certainly I don't think anybody would argue that the 16 percent falloff is because of the embargo. It has contributed to it.

It is important, though, because the Soviets have promised more meat, they have had riots.

I will point out a little bit later, the strike in Poland, which we can document, is in part the result of the shortage of consumer goods, agricultural goods, food, and we are contributing to that.

SERIOUS MEAT PROBLEM FOR DECADES

Senator McGOVERN. I am sure you agree, Mr. Chairman, that when the National Security Council announces that they have a serious meat problem in the Soviet Union, that that is hardly electrifying news. This has been true for 100 years and more.

The Soviet consumers have been on a low meat diet for many, many decades. Now, if in fact it has fallen by 16 percent in the case of beef, or as you say, 9 and 10 percent in the case of pork, I would suggest in the first instance that the evidence is very flimsy particularly when you consider that the same intelligence estimates tell us that they only get 8 percent of their livestock feed from us, and when other reports tell us that they have replaced a substantial portion of that 8 percent that they lost as a consequence of the embargo.

They are in fact purchasing grain from other sources. Perhaps the price has been somewhat higher.

But I would suggest to you, when you put that up against the fact that last January when this embargo went on, grain and soybean prices were starting to move up in the United States, it looked like a strong year. It was a projected strong market year for the American farmer.

And almost immediately those prices dipped and have been depressed until we got into a serious drought in some parts of the country this summer—that is just too big a price to pay for what seems to be a very minimal impact on the Soviet Union.

The CHAIRMAN. Senator McGovern, let me challenge you on that part, because the U.S. Department of Agriculture figures suggest that that isn't true.

They had estimated before the embargo that farm income would be down this year. As a matter of fact, it is not down as much as they estimated.

There is no question, as you say, that farm income is low, as I said in my opening statement. It is painfully, disgracefully low for the American farmer.

The question is, whether it is the embargo or other factors which are responsible for the decline.

Last October, long before the Russian aggression in Afghanistan and the President's action, the USDA Output Conference projected a drop in farm income by about 40 percent for this year because of large supplies, the imminent recession, and other factors.

Now, as low as farm income is, it is still above those projections of last October. What proof is there that farm income has suffered because of the embargo rather than from all the other factors which can affect farm income?

Senator MCGOVERN. Mr. Chairman, that makes the case itself.

If in fact we had an oversupply and the Department was projecting a drop in farm income as a consequence of that, obviously if you give up a 17-million ton market, you are aggravating the very source of the problem, which is an oversupply of grain here at home.

We could argue all day about what other factors have contributed to generally unsatisfactory grain prices. But when grain prices are hovering around 60 percent of parity, there is something wrong.

One of the reasons that the projection isn't even worse in terms of grain prices is that we have had serious drought. As members of this committee know, nobody could have predicted, that has firmed up the prices somewhat beyond where they otherwise would have been. But that is an enormous price to pay in order to stabilize what would have been an even more disastrous——

The CHAIRMAN. Well, Senator McGovern, what do the facts show?

The U.S. Department of Agriculture reports the following, and I quote from their Newsletter:

"Grain prices peaked last summer, started down as record yields in the five major crops were realized"—this is long before the embargo. "On July 31 the average cash feed market price was 22 cents above the same average on January 4. On July 31 corn averaged $3.11 versus $2.47 on January 4. Soybeans were selling for $1 a bushel above the level of January 4."

So, since January, the prices have not gone down, they have gone up. And this is the period of the embargo, this is the period when the embargo should have hurt.

Senator MCGOVERN. Well, Mr. Chairman, I guess I will have to appeal to your sense of logic. If in fact the Outlook Conference at USDA was projecting trouble on farm prices because of an oversupply here at home, how could the loss of a 17-million ton market overseas help that situation? How could that be responsible at all for any improvement in the price structure?

Obviously, when you give up a market of that size, it has a depressing effect. And I think a review of market prices will show that almost immediately farm prices tailed off when the President announced that the embargo was in effect, and they have been sluggish ever since.

The CHAIRMAN. There are a number of steps the administration took to offset the effect of the embargo. Admittedly, they could have taken others steps which could have been more effective, as members of the committee and you have indicated. They increased loans, and the farmer-held grain reserve was increased. They purchased 4 million tons of wheat which were used for Public Law 480. They increased money for exports in the CCC. They bought contract rights from grain traders. Overall, they took steps that had some effect in easing the effect of the embargo.

And as I see the overall figures suggest that prices are actually higher now than they were in January.

Senator MCGOVERN. I would suggest that to whatever extent that's true, the drought has a lot more to do with it than anything else.

Mr. Chairman, conceding that the administration took some steps to ameliorate the impact of the embargo, what you're really totaling up here are some additional costs to the United States, this time in the form of costs to the taxpayers that are above and beyond the losses to the farmers in these markets that have disappeared. We could probably buy the farmer out of this, if we wanted to put enough money into the agricultural subsidy channels, but that's simply another way of saying that embargos are very expensive and very costly. Admittedly, that might be the way to do it on the side of justice, to share the cost with all taxpayers, rather than asking 4 percent of the population, who happen to be farmers, to carry a disproportionate share. But every expenditure that you mentioned here is another reason why this embargo is a cost to the United States.

The CHAIRMAN. My time is up. I have one more question, but I yield to Senator Garn.

RESULTS ARE THE ONLY EXCUSE FOR ACTIVITY

Senator GARN. Mr. Chairman, as I said in my opening remarks, I supported the President's actions in January; I wish I still could. When I was in private business I used to have a plaque on my desk that said "Results are the only excuse for activity." And I think that is the case here. If we were getting results and punishing the Soviet Union, my support would still be there.

I still think there is a possibility of making the trade embargo on grain, high technology items and the training of foreign students effective, if we put some teeth into it.

But it appears to me that the administration consistently tries to pick the best figures to make itself look good, and yet there are so many conflicts in trying to study this issue. Secretary Bergland stated on January 13 and again on January 16 that Soviet meat production was likely to fall by 5 to 8 percent in 1980. At the same time on January 8, President Carter was speaking to a group of Congressmen and said the Soviets would expect a possible drop of 20 percent. Then, however, the U.S. Department of Agriculture

came out with its July projections stating the Soviet per capita meat consumption would drop only 1 or 2 percent.

Well, I don't know whose guesses are correct, but the range is from 1 or 2 percent by the Department of Agriculture to the President's 20 percent and Secretary Bergland's 5 to 8 percent. I think it is interesting, however, that by the July 1980 update on the effect of the grain embargo on the Soviet Union, the USDA indicated that Soviet per capita meat consumption in 1980 is expected to return to the 1975 level of 57 kilograms; a sufficient loss, in view of the Soviet Union's announced goal of 63 kilograms for 1980. But what the U.S. Department of Agriculture fails to mention is that from 1975 to 1979 actual Soviet per capita meat consumption was 58 kilograms. In, 1975 it was 57 kilograms; in 1976 and 1977 it was 56. It was 57 kilograms in 1978, and 58 kilograms in 1979.

So again we are putting the figures in a favorable light. We are only talking about the Soviets dropping back from the 63 kilograms they told us they would produce in 1980 to levels of the last 5, 6, or 7 years. Furthermore, they have already purchased much of the grain from other sources for their needs.

So I think there are a lot of distortions of the facts. Let me just illustrate what this 1 kilogram reduction would do to Soviet per capita meat consumption. It would be cut to 125.4 pounds of meat during 1980, from the 1979 level of 127.6 pounds. It is a difference of 2.2 pounds per year, thus forcing the Soviet population to give up a little less than one Big Mac per month. Now I really wonder if in light of the most dangerous act of international aggression since World War II, are really inflicting that much damage on the Soviet Union by forcing its people to give up less than one Big Mac per month.

How do you feel about this, George? Are we getting some accurate figures out of USDA and the administration, or are we playing statistical games, as it seems to me?

Senator McGovern. I think your point is well-taken, Senator Garn. It also occurred to me, as I was listening to you go through these figures, coming down to the final figure, that we may have reduced Soviet meat consumption by 2.2 pounds a year, that while we've been arguing this on a dollars-and-cents basis in real terms, one also has, to think about the humanitarian impact of reducing food consumption, even in a country that has an ideology that we disagree with. The thought that was going through my mind is, who's really being cut, if anybody is, in the Soviet Union? Certainly not Brezhnev. He's not going to get 2 pounds less meat this year, because of the embargo.

I don't think the Soviet Armed Forces in Afghanistan are going to have their rations cut. The people who are most likely to be hurt by a food shortage in any country are the poor and the old, the children. It'll be the strong that will be the last ones cut, in the event of a food shortage.

One of the reasons I just innately back away from grain embargoes is not only because I think they seldom work in terms of foreign policy objectives, but I do think they fall most heavily on the weak and the most vulnerably elements in the countries

they're applied to, rather than the strong and the powerful and the influential.

Senator GARN. Well, there may be a considerable difference here in our positions. Are you telling me that you would be opposed to the grain embargo, even if it were effective?

Senator MCGOVERN. I would oppose it in any event, Senator Garn. Maybe we do have a difference, because if it were working, I would continue to support it.

If we used the test, would it help get the Russians out of Afghanistan, I would support it. If that's the test. When you say, "Does it work," the bottom line is, does it build pressures on the Soviet Union to pull out of Afghanistan. I don't think it's going to accomplish that. In that sense, it's not working. But if you cited evidence to me that we'd been able to make a number of old people and children and nursing mothers hungrier than they otherwise would be, I don't know whether that's a good test. When you assume on the other side, that those in the strongest positions to influence that country are probably the ones that are first in the meat line.

Senator GARN. Well, I do believe that tough, well-enforced economic sanctions, including not only grain, but also high technology and a lot of other things, could punish the Soviet Union very dramatically and could certainly hurt its ability to produce weapons. Cut down the Soviet's ability to put 12 or 15 percent of their gross national product into defense—incredible burden on the poor of their country to spend on their military machine.

Senator MCGOVERN. Senator Garn, I think it's on that point that the National Security Council in recent years has strongly recommended enhanced U.S. grain sales to the Soviet Union. One of the points they made is that to whatever extent we can sop up gold and hard currency from the Soviet Union for grain purchases, they have that much less to purchase the weapons of war.

Senator GARN. Well, once again, I think the only difference of opinion we probably have is that I would support the grain embargo, if it were effective. But I see no reason to punish the American farmer and his income, if it is not working.

Senator MCGOVERN. Basically, we're in agreement. That's the central thrust of my own argument.

Senator GARN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Stevenson.

RETURN TO THE AMERICAN MARKET

Senator STEVENSON. Thank you, Mr. Chairman. I just have one question, and I think Senator McGovern has made an excellent statement. I agree with all of it, except the conclusion, the bottom line, remedy. If the embargo were lifted tomorrow, Senator, would the Russians come back to the American market?

Senator MCGOVERN. That's one thing that worries me, Senator Stevenson. When we lifted the soybean embargo on Japan they came back partway, but in the meantime, they were exploring markets in Brazil, which they helped to fund with Japanese capital, and we never have recovered from the soybean embargo on Japan. We've lost hundreds of millions of dollars as a consequence of that, and it's a continuing loss.

So I can't tell you with any certainty that the Russians would be back in the American market immediately. We may be seriously jeopardizing our long-term sales there, as well as the short-term opportunities.

Senator STEVENSON. The Japanese began developing supplies of soybeans in Brazil.

Senator MCGOVERN. That's correct. They did, indeed. They turned Brazil, largely through their stimulus, into a major supplier of soybeans, to the detriment of American soybean producers.

Senator STEVENSON. Now even the most friendly countries, Japan included, are reluctant to enter into long-term agreements for the supply of any commodity, including coal, for example. The real price is inflation, it's unemployment, it's economic stagnation. It's declining competitiveness of the United States which results from these self-destructive acts of which this embargo is an example. The House has already demonstrated that the Congress will not, at least in the near future, act favorably on this legislation.

The White House has made it clear that the Russians must withdraw from Afghanistan but also admits that this measure will not encourage them to withdraw from Afghanistan?

So it seems to me that some statesmanship is called for at this point, which recognizes that there are alternatives to continued support for a counterproductive embargo on the one hand, and to precipitiously lifting it on the other at some risk of signifying American capitulation and other American failures in the world.

You serve not only on the Foreign Relations Committee but also on the Agriculture Committee and you are in a unique position to examine some alternative means of conducting trade with the Soviet Union. I mentioned a couple of alternatives that have been examined in this committee for some years now. How would you feel about government to government sales of grain? In this case, CCC sales of grain to embargoed countries that would require sales to take place at a market price? A small act by the Congress is required and the bill is now pending before the Agriculture Committee which would permit sales below the release rate. That might be a way of edging the United States out of its corner and perhaps help the Russians get out of their corner, and it might be one means of beginning to serve effectively our economic and our politica! purposes?

Senator MCGOVERN. Well, Senator Stevenson, I don't think you'd expect me to make a final judgement on a change of that kind in American trade policy without going into all of the ramifications of it. I think it is an idea that has some appeal. I'd certainly be happy, as one member of the Committee on Agriculture, as well as Foreign Relations, to look at it carefully. I share your view that it's not the most desirable route for the Congress to abruptly overturn the President on a foreign policy judgment of this kind. I'm fully aware that the President made this under his foreign policy authority of the Export Administration Act, but I don't know any other way that the Congress can make the depth of its feeling felt, except by a legislative proposal at this time.

I think it's clear that the chances of Congress adopting this legislation are not all that hopeful, but if it builds pressure which is already coming from the major farm organizations and already

coming from a great many other sources in the country on the President. It might serve its purpose by persuading him to use his power as President of the United States to lift the embargo. I think there are various ways that he could do it without any great loss of face, maybe a claim can be made for some of the achievements of the embargo that has registered the extent of our indignation, disapproval, and served its purpose. And now we're ready to move on.

But I would certainly look at these alternative measures as you've proposed. I think they are reasonable suggestions, and ones that the Congress ought to consider.

Senator STEVENSON. These are CCC stocks, acquired at considerable expense to the taxpayer, with an additional need for price supports, and can't be disposed of without depressing pricing, except by disposing of them in markets that are otherwise denied them.

Senator MCGOVERN. Yes.

Senator STEVENSON. So that might be one way of resuming trade with the Soviet Union and without depressing prices. In fact, it would have a positive effect on prices, and by implying that the availability and price is going to depend to some extent on behavior.

Senator MCGOVERN. I certainly think that suggestion makes a lot more sense than the decision that was made here a few weeks ago, to tell our multinational companies based here in the United States to go ahead and sell to the Soviet Union, provided they purchase the grain from other countries. I think the Senator's point has a certain logic to it.

Senator STEVENSON. This would be a way of minimizing the risk of transshipment. I'd be very grateful if you would consider that possibility. There is legislation pending in your committee. And also the possibility, as we do in all other commodities, of simply licensing the sale of grain to the Soviet Union as an alternative to embargo. And as a matter of fact, these licenses could be associated with the fee and the price charges.

Thank you.

Senator MCGOVERN. Mr. Chairman, I have a personal dilemma. I agreed to chair the Committee on Foreign Relations this morning.

The CHAIRMAN. There's a rollcall vote right now. We're going to have to recess and come back. Can we just suggest if Senator Morgan would like to question you ——

Senator MORGAN. Mr. Chairman, I will just reserve my observations for later.

The CHAIRMAN. You will be followed by two colleagues, as you know: Senator Jepsen and Senator Zorinsky. So I propose that we recess for 10 minutes, come right back, and then followup with the next witnesses.

Senator MCGOVERN. Thank you very much.

The CHAIRMAN. Thank you very, very much for coming, Senator McGovern.

[Recess.]

The CHAIRMAN. Senator Jepsen is scheduled to be our next witness and as soon as Senator Jepsen comes back, we're going to put him on and interrupt Senator Exon.

Senator Exon is here, he has another meeting with the Budget Committee, and we're very honored and delighted to have the distinguished Senator from Nebraska, Senator Exon, who is a cosponsor, as I understand it, of the bill.

Go right ahead, Senator Exon.

STATEMENT OF J. JAMES EXON, U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator EXON. Thank you, Mr. Chairman, members of the committee.

Senator Jepsen has just come in.

The CHAIRMAN. We just announced that you were next so Senator Exon is here. We said you could interrupt him. Go ahead.

Senator JEPSEN. I prefer that he finish.

The CHAIRMAN. He hasn't even started. All he said was "Mr. Chairman."

Senator JEPSEN. It's all right with me, Mr. Chairman.

The CHAIRMAN. Why don't you sit down? I'll tell you what we'll do. If your colleague from Nebraska puts him on, we'll put him on, too, because I know all you gentlemen are very busy.

Senator JEPSEN. This is a very bipartisan thing.

The CHAIRMAN. It certainly is, and this shows it.

Senator JEPSEN. It's nonpartisan, that's what I meant, everybody is against it.

The CHAIRMAN. Is it nonpartisan, bipartisan or both?

Senator EXON. Mr. Chairman, thank you very much.

I appreciate very much the consideration of my colleague. I'm going to be brief.

Mr. Chairman, I come here as a cosponsor of the matter that you are considering, but I come here in somewhat of a different light.

Compared with some of my colleagues who opposed the grain embargo from the very inception, I was one of those, rightly or wrongly, who felt that the original action as explained by the President in the initial instance as something for us to do, should have been done under those circumstances.

The bottom line, it seems to me, Mr. Chairman, is that for all of its good intentions, the grain embargo against the Soviet Union has not been nearly as effective, if it has been effective at all, in causing concern to the Soviet Union.

POSSIBLE CAUSES OF DISTURBANCES

I happen to believe that there are some places that could be cited where I think it has caused some concern to the Soviet Union. It certainly has cost them more money to obtain the grain elsewhere. It's very likely that the difficulties the Soviet Union is having internally today, with regard to the standard of living, and especially food is related to the embargo. It is very possible that the shortage of food is connected with the disturbances in the Communist satellite country of Poland, today.

I must say that I do not believe that we've been able to live up to the commitment that was made to the American family-sized farmer not to have to bear the main brunt that was clearly promised in the early days of the embargo.

That promise has not been kept. I think that the American farmer has certainly been hurt, pricewise. He has been hurt too, because of the psychological impact that we always have when we take upon ourselves to embargo grain.

So I would just like to say, Mr. Chairman, that while I think this move by the Administration very likely was well-intentioned even though not as well thought out as it should have been, it obviously could not be as successful as anticipated unless we had the cooperation of the other grain-producing countries, which we have not had.

Therefore, I think that it's time we recognize that this has not been successful and the quicker we end it, the better.

I would just like to say in conclusion, that I do not share a widely held concept by many for various reasons that never, ever should we use grain as an economic weapon.

There are few things in the United States today that we do very well in the international world competition. One of the places where we truly excel is in the production of food, and were it not for the significant contribution that agriculture has made in the last several years, the deficit of trade would have been about double what it actually has been.

FOOD AS A ECONOMIC WEAPON

Therefore, since we do excel in the production of food, I do not believe it's unthinkable that we should recognize food as a very important and legitimate economic weapon and we should use, with caution.

In the future of the United States of America, while we're building up our defense effort and spending billions and billions of taxpayers' dollars to insure peace in the world, or attempt to, when we're building new types of missiles to destroy people, it really doesn't make a lot of sense to me, Mr. Chairman, to hear this talk that it's unholy and it's unthinkable to use food as an economic weapon.

When we use food as an economic weapon, however, I think we must take steps as a government to make sure that the producers of that food, the family-sized farmers, are not hurt.

Therefore, if there are no questions, I would like to take my leave, simply to say that under the circumstances, I believe that the bill that you are considering to eliminate the embargo is a step in the right direction under present circumstances.

The CHAIRMAN. Thank you, Senator Exon, for an excellent statement. We very much appreciate that. We appreciate the fact that you have to leave now.

Senator Jepeen, I want to apologize to you, you've been extremely patient. You've been here a long time, you've waited and you were promised to be the next witness. And we very much appreciate your patience and your grace in letting Senator Exon go ahead.

STATEMENT OF ROGER W. JEPSEN, U.S. SENATOR FROM THE STATE OF IOWA

Senator JEPSEN. Mr. Chairman, thank you very much.

By way of introduction, I would like to lay some foundation for some specific remarks and incidents that chronologically have

taken place since the great embargo was put in place by the President.

I would say, from the onset, that it is not right for me or, I believe, anyone in a political year or nonpolitical year, to try to judge what the intent of a man's heart or his head is. That is for someone else to do.

But we must make judgments based on the consequences of actions, actions that sometimes are reflected in voting records, sometimes reflected in actual results, as listed or not listed. This is not a partisan issue.

In a jocular vein, as I sit down and try to point out, it is obvious that it is not partisan. We have Democratic Senators from Farm Belt States as well as Republican Senators, speaking out against this dismal failure—the grain embargo.

I might add, Mr. Chairman, it has grown increasingly difficult not to interpret this as being for the most part political in a political year.

Like several others who have testified today, both Democrat and Republican, I, too, disagree with the embargo.

We do not accomplish any goals in foreign policy by implementing programs or sanctions that punish Americans, and have little or no effect on our enemy.

History and precedent have shown that economic sanctions, especially in the grain area, have not worked before, as have been pointed out very ably here by previous witnesses. President Carter was, in fact, attempting to politically posture himself as being firm. President Carter did lay down the grain embargo, and in his haste to appear tough, took out a six-gun, shot the American farm economy in the foot, and said to Russia, "Here, take that."

BEING SOFT ON COMMUNISM

Unfortunately, anyone who questioned his action at that time, on a factual basis, was accused of being unpatriotic.

The Carter administration now again has resorted to those same tactics through its hatchetman, Secretary Bergland. Very recently, when some Senators from the Senate Agriculture Committee, myself included, asked that the embargo be lifted, Bergland called us pussycats and soft on communism.

We have reached a new low of gutter politics and I'm not going to clutter the record with any more response to that. The fact is that we did have a trial balloon, so to speak, in the House of Representatives. I might point out that one of our Congressmen from my home State was a sponsor of that amendment to lift the embargo and, as a sponsor, he ended up going against it.

Here again the tactics were used in the House of Representatives. People who wanted to discuss or lift the embargo were, indeed, accused of being soft on communism.

I would also refer to, Mr. Chairman, some of the facts that you reported here in response to the first witness about the impact and effect the grain embargo has had on the shortages of meat and so on in the Soviet Union. Having been born and raised on a farm I can say that these facts don't really reflect an accurate measure of the grain embargo. Even though we would have slowed down shipments of grain or that Russia would not have received the amount

of grain, farmers will attest that you're not going to have dramatic drops in any red meat programs in 6 months' time.

A beef cow has to be bred in order to have a calf, the calf has to be raised in order to be fattened for the red meat table.

If there is a beef problem, it's a well-known fact that it would have to have occurred long before the grain embargo was imposed.

Mr. Chairman, the price of grain at the country elevator in Iowa today is $2.85, which is pretty good for Iowa farmers. We hope it gets a lot better.

Now the administration seems to believe the stable price in August of 1980 indicates that the Soviet grain embargo has had little or no effect on the farmers.

Mr. Chairman, I report to you as a matter of fact that the psychological effect of that embargo on the economy in Midwest States and in my State of Iowa was the most disastrous since the days of the depression.

I can attest to this not only when I say farm economy, but also farm and farm-related industries. This includes farm implements, companies like John Deere and International Harvester that are laying off full shifts. Thousands of people are being laid off even now.

Automobile dealers, small businesses, and especially chemical fertilizers went bankrupt. Young farmers are still struggling. Farmers who were able to obtain credit, which was difficult in those times, are still paying interest rates of 18 and 20 percent.

The fact that the prices are up now, as Senator McGovern pointed out, logically has more relationship to the drought and the tough weather times we've had, than it does to the grain embargo.

Logic defies that the grain embargo, where you ruin your market, or cut out a market, could certainly help increase the price of grain. I would point out in a constructive vein, Mr. Chairman, that when Senator McGovern and I agree 100 percent on any issue, I suggest it be examined very closely, because it must mean that philosophically and politically, since those things are all set aside, it stands on its own two feet on its substance.

Farmers throughout the Midwest, therefore, cannot agree with President Carter's assessments. Price supports in the same country elevator mentioned above, fell below $1.90 immediately after the grain embargo.

So I'm very quickly going to review events subsequent to the January 4 embargo of grain sales to the Soviet Union that led to the confusion in the farm sector.

I'm not going to read this verbatim and I would ask that my statement——

The CHAIRMAN. We'll be delighted to have your statement printed in the record.

Senator JEPSEN. On January 4, we had the embargo. When the announcement was made, the President, by innuendo and otherwise, indicated that this had been coordinated with, and had the support of, other people around the world.

The problem was, Mr. Chairman, that we had military aggression in Afghanistan. After laying on the embargo, I might point out that within 24 hours, it shook the Russians so much that they committed 37,000 more troops.

I don't see any letup in Afghanistan to this date. When he announced the embargo, the President also promised to look at several alternatives, including a paid diversion program for farmers.

Then, on January 6, the Commodity Futures Trade Commission suspended trading in grain futures for January 7 and 8 due to the confusion caused by the embargo. This drove the price of grain down substantially.

On January 7, the Assistant Secretary of Agriculture announced a series of measures to minimize the impact of the embargo on domestic prices.

Among the proposals that they suggested at that time was a strong statement about the benefits of a paid cropland diversion program on January 9.

Members of the International Longshoremen's Association announced that they would not handle the ships with Soviet cargo. It was also announced that all future requests for export licenses would be judged on a case-by-case basis by the Department of Commerce.

Then the Administration proceeded with an inconsistent policy for granting export licenses for one product and denying it to the next.

Contrary to what was indicated on January 4, I would point out, Mr. Chairman, that on January 12, representatives from the United States, Australia, Canada, the European community, and Argentina, met to discuss cooperation in withholding additional amounts of grain to the Soviet Union.

Australia, Canada, and the European community did agree to cooperate with the United States at that time. This was a little late, several days later than January 4.

GRAIN FROM OTHER COUNTRIES

But, of course, as you and I both know, reports have continued to reveal that grain was, in fact, reaching the Soviet Union from these countries, either directly or from an intermediary Iron Curtain nation.

On January 14, representatives from the United States, Argentina, and Brazil met to discuss withholding additional sales of soybeans, again contrary to what was indicated on January 4. This additional sale of soybeans would partially replace the 17 million metric tons of embargoed U.S. grain. However, Argentina and Brazil, contrary to what the American public was led to believe on January 4, refused to restrain their sales.

This was in direct contradiction to the President's assurance that these countries had been contacted and agreed to participate. On January 18, the President imposed a 1 million metric ton quota on Soviet ammonia.

On January 23, the American Farm Bureau Federation announced that it filed suit with the National Labor Relations Board against the International Longshoremen's Union. This was the result of the farmbelt's frustration over the administration's inability or unwillingness to intervene.

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On February 27, the administration announced that, as of February 24, certain nonstrategic agricultural commodities were removed from validated licensing control.

I would point out that at the same time, a validated license on a prior approval system was established for the export of phosphates. Phosphates are used in fertilizer. Fertilizer is used to increase yields of crops.

It was certainly contrary, contradictory at least, to force grain producers to carry a major burden of the embargo, which they ended up doing.

On February 25, the President then imposed an embargo on all U.S. exports of phosphates. He did this after testimony and questions asked by this Senator and others directly or through the Secretary of Agriculture.

On February 29, the Secretary of Agriculture announced there would be no paid cropland diversion program. Now this action was in direct contradiction to earlier statements made by President Carter, Secretary Bergland, and Assistant Secretary Williams.

For 2 months, farmers were led to believe there would be some kind of set-aside program, which they could have referred to when they were looking for credit.

On March 20, the Commodity Credit Corporation opened for purchase contract rights and contracted for 7 million metric tons of soybeans. There was dumping of soybeans at that time.

This was at a time the farmers were still suffering from the impact announced on January 4 of the grain embargo. On April 15, the Secretary of Agriculture announced that farmers who did not participate in the 1979 feed set-aside grain program would be allowed a limited amount of grain under the farmer-held grain reserve.

I would like to point out that there were those of us on the Senate Agriculture Committee who introduced legislation in January immediately after the grain embargo to allow the Secretary to open the feed grain program.

It was advised at that time that it was not necessary to impose such action. This was not announced until April 15, long after contracts for chemicals, fertilizer, supplies, and for plants were issued. Further confusion, further chaos.

On June 18, officials notified U.S. grain exporting companies that they could resume sales of third-country grain to the Soviet Union.

Here, Mr. Chairman, is where the President of the United States lost even some of his most enthusiastic Democrat colleagues and supporters.

This announcement meant that grain companies could sell non-American grain to the Russians. They could sell any grain to the Russians as long as they didn't sell American grain. This was blatant indifference to the U.S. grain producers.

In addition, Secretary Bergland, on behalf of the Carter administration, has repeatedly claimed that the grain embargo has been effective with regard to substantially reducing grain imports to the Soviet Union.

However, Mr. Chairman, on August 1, at a meeting held before the Joint Economic Committee which you chaired and I attended

and asked questions we found from the Defense Intelligence Agency the effect it has had. One answer to a question was, and I quote, "We have learned that the Soviets very quickly replaced most of the grain we have embargoed from other Western countries, mainly Argentina, although Canada exports wheat after embargo, et cetera; further asking that they make up their shortages this year."

Mr. Dole said, "There have been no major long-term grain agreements but they have negotiations and short- and intermediate-term agreements."

When I asked with whom, he answered with Argentina, Australia, and Canada. He said this was all he was permitted because it was a classified document. And the balance of those statements would indicate that they have received grain from other sources.

So, Mr. Chairman, in view of this distorted information, threats, and confusion on the part of the Carter administration in handling the grain embargo, I am hopeful that the facts will be presented properly and ample consideration will be given to terminating the grain embargo.

We must legislate a consistent policy. Every day, Mr. Chairman, that the embargo continues, the United States loses untold millions of dollars in future export sales. This hasn't been discussed enough. We are going to end up paying for this mistake for many years to come. That has been the history of grain embargoes.

We are going to pay, due to the lost markets and weakened credibility from us and strengthened competition from other grain exporting countries. This is competition which we have encouraged. Grain embargoes are bad news.

I would close and conclude with this fact, which is brandnew, as far as I know, Mr. Chairman.

RUSSIAN WINDFALL PROFIT

One little-known fact about the Soviet grain embargo is that the Russians may very well have made a windfall profit of hundreds of millions of dollars as a result of President Carter's action.

When the Russians made their grain purchases in 1979 the price of corn was higher than it was in January 1980 when the embargo was imposed. But strangely the price of gold which the Soviets used to pay for the grain went up sharply between September 1979 and January 1980.

To put it another way, an ounce of gold could buy only 170 bushels of corn when the Russians made their commitment. By the time President Carter forced U.S. cancellation of 17 million tons in grain sales, an ounce would buy almost 280 bushels of corn.

So what did the Russians do? They replaced virtually all the U.S. grain contracts with corn and wheat from Argentina, Australia, Canada, and other grain exporters and they did it at a price in gold far lower than they had contracted U.S. grain for.

So in addition to the fact that the Russians were not penalized by the grain embargo, the USDA now estimates that the Russian grain shortage was only about 2 percent of the need. They were probably able to replace U.S. grain at a sharply lower cost to them.

If they took full advantage of the increased low value, the Russian windfall profit could have been as much as $750 million, three-

quarters of $1 billion. That is a pretty good profit for someone who is trying to do you in.

[The complete statement follows:]

STATEMENT BY SENATOR ROGER W. JEPSEN

Mr. Chairman, the price of grain at the county elevator in Iowa today is $2.85, pretty good for Iowa farmers. President Carter believes that this favorable price in August of 1980 indicates the Soviet grain embargo has had little or no effect on the farmer.

Farmers throughout the Midwest cannot agree with President Carter's assessment. The price of corn at the same country elevator mentioned above fell below $1.90 immediately after the grain embargo on January 4, 1980. Today's $3.00 corn does not compensate farmers for the catastrophe in January. Farm prices fell sharply in the late winter and early spring of 1980 and produced a series of problems that devastated agricultural producers. High interest rates, lack of credit availability, and reluctance by banks and other creditors not to extend financing to farmers because of their inability to repay agricultural loans were intensified and in some cases caused by the embargo. The unpredicatble policies of this administration may foster $3.00 corn today and drop farm income 40 percent tomorrow.

It is necessary to review the events subsequent to the January 4 embargo of grain sales to the Soviet Union that led to confusion in the farm sector.

I would like to list action by the Administration that clearly demonstrates the administration's disregard for agricultural producers.

On January 4, 1980, the President suspended all agricultural trade to the Soviet Union in excess of the eight million metric tons of grain that the U.S. was committed to sell under the 1975 U.S.-U.S.S.R. grain agreement. The President also outlined a preliminary program designed to offset the potential adverse impact of the domestic farm economy. The President promised to look at several alternatives including a paid diversion program for farmers.

On January 6, 1980, the Commodity Futures Trading Commission suspended trading in grain futures for January 7 and 8 due to the confusion that was caused by the Soviet grain embargo of January 4. The psychological impact of the grain embargo drove the price of grain down substantially.

On January 7, 1980, the Assistant Secretary of Agriculture James Williams announced a series of measures to minmimize the impact of the embargo on domestic prices and income. Among the proposals was a strong statement about the benefits of a paid cropland diversion program.

On January 9, 1980, members of the International Longshoreman's Association announced that they would no longer handle ships with Soviet cargo. This action increased the intensity of the negative impact the embargo had of farmers. The administration made no effort to resolve this situation. Also on Janury 9, export licenses for all agricultural products to the Soviet Union other than the eight million metric tons of grain were suspended, effective Janury 7, 1980. It was also announced that all futures requests for export licenses would be judged on a case by case basis by the Department of Commerce. The administration proceeded with an inconsistent policy for granting export licenses for one product, denying it for the next.

On January 12, 1980, representatives from the U.S., Australia, Canada, the European Community, and Argentina met to discuss cooperation in withholding additional amounts of grain to the Soviet Union. Australia, Canada and the European Community agreed to cooperate with the U.S. pledging not directly or indirectly to repace the 17 million metric tons of grain affected by the embargo. Reports continued to reveal that grain was in fact reaching the Soviet Union from these countries.

On January 14, 1980, representatives from the U.S., Argentina, and Brazil met to discuss withholding additional sales of soybeans to the Soviet Union. Additional sales of soybeans could partially replace the 17 million metric tons of embargoed U.S. grain. Argentina and Brazil refused to restrict their sales. This was in direct contradiction to the President's assurance that these countries had been contacted and agreed to participate in the embargo.

On January 18, 1980, the President imposed a one million metric ton quota on Soviet ammonia imports for calendar year 1980. This reversed his earlier decision of December 11 to override the International Trade Commission recommendation that a one million metric ton quota be imposed for 1980.

On January 23, 1980, the American Farm Bureau Federation announced it had filed suit with the National Labor Relations Board against the International Longshoreman's Association for its refusal to handle ships with Soviet cargo. The suit

resulted from the farm belt's frustration over the administration's inability to intervene.

On February 7, 1980, the administation announced that as of February 4, certain non strategic agricultural commodities were removed from validated licensing control, enabling these commodities to be sold to the Soviet Union without prior approval by the U.S. Government. Commodities removed from restricted sales are those determined not to affect Soviet grain and meat supply. At the same time, a validated license or prior approval system was established for the export of phosphates to the Soviet Union. Farmers were confused and angered over these actions, because they were contradictory and forced grain producers to carry the major burden of the embargo.

On February 25, 1980, the President imposed an embargo on all U.S. exports of phosphates to the Soviet Union. The embargo covered marketable phosphate rock, all concentrates of phosphoric acid, and all concentrates of phosphate fertilizers for an indefinite period. U.S. exports of phosphates to the Soviet Union were valued at 97 million dollars in 1979 and were expected to increase to 400 million dollars in 1980.

On February 29, 1980, the Secretary of Agriculture announced that there would be no paid crop land diversion program for the 1980 crops of corn, wheat and other feed grains. This action was in direct contradiction to earlier statements made by President Carter, Secretary Bergland, and Assistant Secretary Williams. Farmers for two months were led to believe that there would be some kind of set aside program or paid diversion program. This announcement was made too late and interfered with the marketing plans of farmers. At this time, the administration continued to show latent disregard for the plight of farmers.

On March 20, 1980, the Commodity Credit Corporation opened for purchase contract rights it has assumed for the 0.7 metric ton of soybeans affected by the embargo. The sales of these soybean contracts into the market depressed commodity prices and psychologically destroyed grain prices for weeks. This was at a time when farmers were still suffering from the impact of the grain embargo announced on January 4.

On April 15, 1980, the Secretary of Agriculture announced that corn farmers who did not participate in the 1979 feed grain set aside programs would be allowed a limited amount of grain into the farmer held grain reserve. I introduced legislation in January immediately after the grain embargo was announced to allow the Secretary to open the feed grain program. The administration and the Secretary of Agriculture insisted this was not necessary and opposed such action. This inconsistent and haphazard policy added to the destructive effects of the Soviet grain embargo.

On June 18,1980, officials notified the U.S. grain exporting companies that they could resume sales of third country grain to the Soviet Union. This meant that grain companies could sell non-American grain to the Russians showing blatant indifference to U.S. grain producers.

In addition, Secretary Bergland, on behalf of the Carter administration has repeatedly claimed that the grain embargo has been effective with regard to substantially reducing grain imports into the Soviet Union. However, on August 1, 1980, I stated that according to top analysts at the Defense Intelligence Agency, the Soviet grain embargo had had almost no effect on the Soviet Union. The D.I.A. statements were made in highly classified testimony before the Joint Economic Committee. According to D.I.A. analysts, "the Soviets will have a grain shortfall this year of only three percent. That is out of a total supply of something on the order of two hundred million tons, and it will not appreciably affect their economic growth rate. We observed that the Soviets very quickly replaced most of the grain that we embargoed form other western sources." Although proponents of the embargo profess a great psychological impact of the embargo on the Soviet Union, D.I.A. officials could not assess the situation. The analysts testified: "I do not believe we have a measure of the psychological impact, other than the fact that they're discontent with respect to the variety of diet and availability of meat. The leadership is going to continue to fail to meet those expectations."

Mr. Chairman, in view of the distorted information, threats, and confusion on the part of the Carter administration's handling of the grain embargo, I'm hopeful that the facts will be presented properly and amply consideration will be given to terminating the grain embargo. If we must legislate a consistent policy, so be it. Let us think of our farmers.

Mr. Chairman, every day the embargo continues, the United States loses untold millions of dollars in future export sales. We will end up paying for this mistake for many years to come, due to the lost markets from weakened credibility from us, and strengthened competition from other grain exporting countries; competition which

we encouraged. Grain embargoes are bad news. Let's terminate the Carter grain embargo now.

The CHAIRMAN. Thank you very much, Senator Jepsen.

Senator Jepsen, you raised in the course of your testimony, the testimony before the Joint Economic Committee, of the Defense Intelligence Agency including General Tighe.

I inserted in the record earlier the full excerpts which they had provided for us after they sanitized the record [see p. 2].

In the course of that, they characterized the effect of the grain embargo on the Soviet economy as having a gross psychological impact on the country. They also indicated the following as far as the specific consequences:

The Soviets agreed to buy 8 million tons of grain annually under a long-term program. That was to fulfill Chairman Brezhnev's commitment to provide a better diet for Soviet citizens, concerned as the Soviet citizenry is with the lack of adequate supplies of meat and lack of diversity in the diet.

They replaced most of the shortfall but they are going to fall short by a number of million tons of wheat, and most of that was in feed grains for livestock:

Then, in the middle of page 19—

We are trying to convey that tight food supply and the kind of things that add variety to diet and corresponding consumer requirements are going to continue to be in short supply. There is going to be no overall shortage of food to feed the population, but there will be a continued failure to meet the Brezhnev commitment to a more diversified, more palatable diet for the Soviet citizens.

And that is a source of discontent, and according to one press dispatch we have here, this is connected with the strike in Poland. Let me just read one more part and ask for your comment. This is not from the Tighe testimony; this is a question I would like to ask you.

Although reasons for the current strike in Poland are not entirely clear, a major factor seems to be to have been the meat price increases that went into effect July 31. And also, according to one news dispatch, disruptions in the local agricultural economy have made it difficult to keep the cities supplied with meat.

I want to ask you, is it possible, in your view, that the U.S. grain embargo may have contributed to the meat shortage and agricultural disruptions in Poland as a result of Soviet efforts to replace U.S. supplies from the West as well as from Eastern Bloc countries such as Poland?

Senator JEPSEN. In answer to your question, I suppose anything is possible, Mr. Chairman.

I have not seen any statistics or any indication that the grain sales to Poland or Poland's supplies of grains for its red meat program have been effective. Granted, that doesn't mean that it hasn't been effective. I have not seen statistics.

But, in fact, this is the first time that this specific question has been broached or I have considered it with the recent days' activities in Poland with the strike.

I would like for the record, Mr. Chairman, to point out that, as you mentioned, General Tighe did say, and I quote:

"These actions question the legitimacy of the Soviet Union as a nation." He was referring to the grain embargo and also the Olym-

pic games. Then he said, "I think they have a profound effect, these psychological, personal attacks on the people themselves."

But of course, as we both know, later on in the testimony when I asked a question, he answered, and I quote:

"Last week the administration announced that the Soviets could now do business with American grain companies as long as the American grain companies were doing business with anybody and everybody except American grain growers. What kind of a psychological impact would this have on the Soviet Union?"

Mr. Dole replied that he couldn't address that. Dr. Collins who was also on the panel said, "I don't believe we have a measure of the psychological impact other than the fact that their discontent with respect to the variety of meat and the availability of meat is going to continue and the leadership is going to continue to fail to meet those expectations.

The CHAIRMAN. Let me just interrupt.

General Tighe did specifically say that some measure of that discontent is the recent strike at the Togliatti truck plant, which was undertaken in direct protest against the variety of food that is available.

There was a tangible, specific work stoppage in the Soviet Union resulting from the shortage of food.

Senator JEPSEN. Concerning the variety of the diet that was available.

The CHAIRMAN. I should say the shortage of variety.

Senator JEPSEN. As I pointed out earlier, it takes a lot longer than 6 months to bring a calf from red meat to the meat table.

SHORTAGE EFFECT IN 1981

The CHAIRMAN. What you are saying now is the real effect of this is going to be a lot tougher later on than it is now. You are saying that you can't measure it so much now, although there was some indication that for various reasons they are suffering a shortage, but the real effect is going to be in 1981.

What is wrong with making it tougher for them in 1981?

Senator JEPSEN. Respectfully, Mr. Chairman, that is not what I was saying. I was responding to a specific question that the embargo has had an immediate effect on the variety and availability of red meat on the table, when in fact there hasn't been time to effectuate any marked degree of red meat on anybody's table.

The CHAIRMAN. Well, the Russian Research Center at Harvard concludes the following, that it was clear that there was an increase in meat supplies in January and February when the slaughtering took place because of the anticipation of not having the feed grain. But by May and June, the absence of feed grain was beginning to be felt.

Do you say that that is impossible?

Senator JEPSEN. No, I do not say that that is impossible. I was giving a specific answer to a specific train of logic.

Mr. Chairman, respectfully, the facts indicate on the basis of the testimony that the impact of our specific unilateral grain embargo, as was testified by Senator Stevenson, who I consider to be one of the foremost experts on foreign trade and the economics of that in

this U.S. Senate, have proved to be ineffective. History shows them to be ineffective.

Our problem last January 4 was an invasion by military forces of Afghanistan. I will not comment further than that, because it would be well out of the purview of this hearing.

The CHAIRMAN. Except that it is ineffective, as a matter of judgment, a subjective judgment. The fact is that the best evidence that we can get from the Department of Agriculture is that the Soviet Union has been deprived of about 6 million tons, not 17 million tons, not most of the 17 million tons, but 6 million tons, which is a substantial, tangible amount of loss. And it could have some effect on the availability of meat and the variety of food.

Senator JEPSEN. I wouldn't question those figures. Of course, I have heard different, as you have. I have heard 3 million, I have heard 6 million, I have heard 2 percent, I have heard 4 percent.

I also know that Canada announced on the wire services that they made a blunder. So they cut their blunder off and immediately entered into a 1.4 million metric tons contract for additional grain to Russia just about 3 weeks ago.

The CHAIRMAN. The National Security Council expects that for a full year there will be a shortage of at least 9 million metric tons by September of this year, in fact. The 6-million-ton figure is less than a year period.

Let me ask you this:

The Soviet Union is not the only country to which the United States has embargoed agricultural exports. The others are Iran, Cuba, Vietnam, North Korea, and Cambodia, now Kampuchea.

Do you favor lifting those embargoes also, and if not, why make the Russians the preferred customer?

Senator JEPSEN. The Russians have been a paying customer for some time. Russia is the other world superpower.

We are living in an age today, an age of technology and science, we are in a global world and we are finding today that our economy, domestically, is in very serious shape and cannot compete in the world for many reasons—a lack of productivity would be one.

We must trade with peoples and areas, both with our allies and those who are acknowledged not to be allies, trade in areas where we will exchange with them to if we are to continue and hope to survive as a people on this Earth.

Now, that doesn't mean that we need to give them technology and this type of thing. We have got some very sad, poor examples ——

The CHAIRMAN. Your answer is that we should not embargo Cuba, Vietnam, North Korea and Kampuchea, Iran—is that right?

Senator JEPSEN. That is not correct. When we are talking about embargo, or are we talking about a specific grain embargo, are we talking about technology and computers?

The CHAIRMAN. We embargo agricultural export to those countries. Are you saying we should continue to embargo agricultural exports to those countries but not to Russia?

Senator JEPSEN. I think that we should continue with our embargo of those countries. We should do it until such time as we have leadership of foreign policy, total picturewise, that we have some rhyme and reason to——

PREFERRED CUSTOMER

The CHAIRMAN. Then you are saying Russia should be a preferred customer?

Senator JEPSEN. I am not saying Russia should be a preferred customer. And it is a good argument, and it is one that is going to be used between now and the 4th of November.

But we are not going to let the administration—Mr. Chairman—I am not known as a pussycat or soft on communism, or John Tower, or Jesse Helms, or any of those——

The CHAIRMAN. I never suggested that, Senator Jepsen. But my question is: I don't see how you can on the one hand say we should continue to embargo grain shipments to Cuba, Vietnam, Iran, Kampuchea, but ship whatever they want to the Soviet Union.

Senator JEPSEN. Mr. Chairman, Russia has not exactly kidnapped 52 of our Americans that we just sit and watch languish in unknown places. As far as I am concerned, I didn't know we were here to do foreign policy of the country.

The CHAIRMAN. So you say we should have a more favorable policy toward Russia than we have toward Iran?

Senator JEPSEN. We have, on a reasonably, mature judgment, realistic basis to trade with Russia as a recognized nation; Iran has kidnapped 52 of our hostages. I don't think there is any comparison. If there is somebody who thinks there is, I think they should reassess their thinking.

The CHAIRMAN. Senator Jepsen, thank you very much for your very interesting and strong statement.

Senator JEPSEN. Thank you.

The CHAIRMAN. Our next witness is Senator Zorinsky, and I apologize again, Senator, you have been very, very patient. We are delighted to hear from you, go right ahead.

STATEMENT OF EDWARD ZORINSKY, U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator ZORINSKY. Thank you, Mr. Chairman.

I appreciate this opportunity to come before your committee and testify on S. 2855.

Mr. Chairman, when President Carter announced on January 4 the suspension of grain sales to the Soviet Union, I called the action asinine. Nearly 8 months later I still think the embargo is asinine, and I believe events have proved me right.

The embargo has been ineffective. Soviet troops still patrol the streets of Kabul. President Carter cited foreign policy and national security as the reasons for imposing the agricultural embargo. But the refusal of the American Government to allow the sale of more than the allotted 8 million metric tons of grain to the U.S.S.R. has not changed Soviet policy in Afghanistan one iota.

There are those who argue that suspending the grain sales has sent a message to the Soviets. They maintain that meat production has been significantly curtailed.

I might point out, Mr. Chairman, the figures that you used previously concerning the meat shortfall represented only state owned and collective farm production of meat. According to the USDA's own figures it does not include production from private

farms or the imported meat. Those figures were not included in the levels which you gave previously.

There are those who maintain that grain supplies are limited, and that the Soviet consumer is being severely deprived. This is sheer fantasy. In fact, the impact of the grain embargo has been grossly overestimated.

The Soviet consumer is not starving. He is hardly being deprived at all. Increased meat imports and higher meat production on private farms has meant total Soviet meat production this year is only 0.6 of 1 percent lower than last year. That's hardly catastrophic.

When you talk about people being hungry in the Soviet Union, I come from a family which knows firsthand. My parents are both immigrants from the Soviet Union. Sixty years ago my father served in the Russian Secret Service. They had famine and they were hungry in Russia 60 years ago.

My father tells me that in his experience as a member of the Russian Secret Service, that it wasn't food shortages that caused the discontent. The discontent was caused by the deprivation of human rights, the disallowance of freedom of religion, the inability to know what was going on through a free press and the media—those types of things that we hold dear in our Nation and are being withheld from the people of the Soviet Union is the main reason for the discontent which is now happening, particularly in the country of Poland.

Grain supplies have not been significantly affected.

I sit on the Senate Agriculture Committee; Senator McGovern also does. I attend embassy parties. The Argentine Ambassador tells me that they are purchasing back grain shipped to Italy and paying them a $10 a metric ton profit, turning around and reshipping it to the Soviet Union.

I just came back a month ago from Canada as chairman of the Canadian-American Interparliamentary Group. While I was there, I was informed that the minister of transportation has announced that Canada has found a new average by which to set grain shipments to the Soviet Union.

They found that in the year 1973 they shipped 5 million metric tons. The embargo calls for no increase above the normal and traditional levels of shipment of grain to the Soviet Union.

The Canadians have indicated to us in our recent visit—it was in their newspapers—that they are raising the 3.8 million metric ton level to 5 million, because they discovered in 1973 they shipped to the Soviet Union 5 million metric tons. Australia is reacting in the same way.

The Russians have replaced all but 6 million metric tons of the embargoed U.S. grain. Not only has every other major grain exporter increased its sales to the Soviet Union, even smaller producers such as Thailand have boosted their exports. Farmers all over the world—everywhere but in the U.S.—have benefited from our embargo.

CIRCUMVENTING THE EMBARGO

Argentina, Australia, Canada, and Western Europe have all increased shipments of grain. But Western Europe has also increased

its shipments of wheat flour and soybean meal made from U.S. crops but processed in Europe, neatly circumventing the embargo.

Two weeks ago I sat on the Foreign Relations Committee and I was briefed by the State Department. I asked if they kept track of grain being shipped to the Soviet Union; they answered yes.

I asked, do you keep track of milled flour being shipped to the Soviet Union? They said, no, that's not on the embargo list.

Then I had to ask the fateful question: do you know where flour comes from?

I point out to this committee that 1.2 million metric tons of grain of wheat equates into 860,000 metric tons of finished milled flour. That's what happening right now, that Western Europe is shipping milled flour into the Soviet Union.

We have also relieved the Soviet Union of the need to feed the satellite countries from their own supplies of grain by increasing exports to Eastern Europe.

Exports from our rival grain producers to the Soviet Union replaced approximately 6 million metric tons of lost U.S. sales during the last marketing year. Despite the administration's announcement that these countries had agreed to respect the embargo and to withhold sales above their regular levels, they are likely to do so again this year. The supposed agreement to cooperate with the embargo is a sham, pure and simple.

Normal and traditional sales levels were never defined. As I indicated before, the Government of Canada announced that it would again this year cooperate with the U.S. embargo—by limiting its sales of grain to the Soviet Union to the record level of 3.8 million metric tons.

But don't misunderstand me. I am not criticizing the Canadian or any other government which refuses to participate in this policy fiasco. On the contrary, I would compliment their countries' leaders for recognizing a crucial fact which seems to have escaped ours. We don't trade with the Soviet Union to help them. We trade with them because it benefits us.

The Soviet Union hasn't suffered from the embargo. But the American farmer, and the rural American economy, certainly has. When the President announced the suspension of sales, grain prices in the United States plummeted.

Yes, it's true that they have recovered somewhat in the past few months. The administration's purchase of 4 million metric tons of wheat for an international emergency reserve has helped, as has the increases in corn and feed grains placed in the farmer-held reserve. But no matter how you shuffle the stocks, no matter how you juggle the figures, you can't disguise the fact that the American farmer lost 17 million metric tons of grain sales last year, and will lose God knows how many this year.

The administration brings out the fact that we are shipping more grain and exporting more grain this year than last, and that's the truth. But nobody points out what impact this has in our increased of trade deficit with the rest of the world or of how much less it could have been.

The administration claims to have increased sales to the Mexican Government to help offset the embargo. But wouldn't that grain have been sold anyway?

ISOLATED FOUR MILLION TONS

The administration claims to have isolated 4 million metric tons of wheat from the market, and purchased some corn. But that grain hasn't disappeared. It's still there, and it will one day either be sold back onto the market or replace other purchases for a wheat reserve.

The administration claims the American farmer haasn't suffered unduly. But we can't even begin to estimate what effect the embargo will have in future years. We have agreed again to sell the Soviets the minimum amount of grain they must purchase under the 1975 grain agreement. How much more would they have bought this year? How many other countries, finally purchasing again from the U.S. after recovering from the shock of the 1973 soybean embargo, have had their faith in the Unites States as a reliable supplier shattered once more? How can we guess how many tons of wheat and fee grain sales that may have lost the American farmer next year, or the next?

The embargo inflected a crippling blow to the American farmer this year. The administration applied a band-aid, and told the farmer not to cry. That band-aid solution cost the American taxpayer close to $3 billion and has had a minimal effect on the wounded American agricultural economy. Similarly, the embargo, meant to slay the Soviets, has had a minimal effect on their interventionist policy in Afghanistan. We might have been better off to simply give the $3 billion to the Afghan rebels now fighting the Soviets, in order to regain the sovereignty of their nation.

Both the embargo and the recovery effort have been a dismal failure. If we learned nothing also from the OPEC nations, we should have learned that if, indeed, the Soviets needed the supplies of grain, we should have raised the price to the Soviet Union of the grain, rather than have embargoed it. The other day, Secretary Bergland, Secretary of Agriculture Bergland, was quoted in the newspapers as saying the United States should not become dependent upon the purchases from the Soviet Union. Why couldn't he have said, Let's make the Soviet Union become dependent upon purchases of agriculture from the United States? We've become dependent on energy to the OPEC nations, and all they have to do is pull out the jumping rope, and we begin to jump. The way to punish another nation, we should have learned by now, is not to embargo but to raise price, make that nation dependent upon our exports to them--rather than to fear our dependence on the imports to them.

Thank you, Mr. Chairman.

[Complete statement follows:]

STATEMENT BY SENATOR EDWARD ZORINSKY

Thank you Mr. Chairman. I Appreciate this opportunity to come before committee and testify on S. 2855.

Mr. Chairman, when President Carter announced on January 4 the suspension of grain sale to the Soviet Union, I called the action assinine. Nearly eight months later, I still think the embargo is assinine, and I believe events have proved me right.

The embargo has been ineffective. Soviet troops still patrol the streets of Kabul. President Carter cited foreign policy and national security as the reasons for imposing the agricultural embargo. But the refusal of the American government to allow

the sale of more than the alloted 8 million metric tons of grain to the U.S.S.R. has not changed Soviet policy in Afghanistan one iota.

There are those who argue that suspending the grain sales has sent a message to the Soviets. They maintain that meat production has been significantly curtailed, that grain supplies are limited, and that the Soviet consumer is being severely deprived. This is sheer fantasy. In fact, the impact of the grain embargo has been grossly overestimated.

The Soviet consumer is not starving. He is hardly being deprived at all. Increased meat imports and higher meat production on private farms has meant total Soviet meat production this year is only one sixteenth of one percent lower than last year. That's hardly catastrophic.

Per capita meat consumption is only likely to be off by 1 to 2 percent—less than an ounce a week.

Grain supplies have not been significantly affected. The Russians have replaced all but six million metric tons of the embargoed U.S. grain. Not only has every other major grain exporter increased its sales to the Soviet Union, even smaller producers such as Thailand have boosted their exports. Farmers all over the world—everywhere but in the U.S.—have benefited from our embargo.

Argentina, Australia, Canada and Western Europe have all increased shipments of grain. But Western Europe has also increased it's shipments of wheat flour and soybean meal—made from U.S. crops but processed in Europe neatly circumventing the embargo. We've also relieved the Soviet Union of the need to feed the satellite countries from their own supplies of grain by increasing exports to Eastern Europe.

Exports from our rival grain producers to the Soviet Union replaced approximately six million metric tons of lost U.S. sales during the last marketing year. Despite the Administration's announcement that these countries had agreed to respect the embargo and to withhold sales above their regular levels, they are likely to do so again this year. The supposed agreement to cooperate with the embargo is a sham—pure and simple.

Normal and traditional sales levels were never defined. Just a few weeks ago, the government of Canada announced that it would again this year cooperate with the U.S. embargo—by limiting its sales of grain to the Soviet Union to the record level of 3.8 million metric tons.

But don't misunderstand me. I am not criticizing the Canadian or any other government which refuses to participate in this policy fiasco. On the contrary, I would compliment their countries' leaders for recognizing a crucial fact which seems to have escaped ours.

We don't trade with the Soviet Union to help them. We trade with them because it benefits us.

The Soviet Union hasn't suffered from the embargo. But the American farmer—and the rural American economy—certainly has. When the President announced the suspension of sales, grain prices in the U.S. plummeted.

Yes it's true that they have recovered somewhat in the past few months. The Administration's purchase of four million metric tons of wheat for an international emergency reserve has helped, as has the increases in corn and feed grains placed in the farmer-held reserve.

But no matter how you shuffle the stocks, no matter how you juggle the figures, you can't disguise the fact that the American farmer lost 17 million metric tons of grain sales last year, and will lose God knows how many this year.

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The Administration claims the American farmer hasn't suffered unduly. But we can't even begin to estimate what effect the embargo will have in future years. We have agreed again to sell the Soviets the minimum amount of grain they must purchase under the 1975 grain agreement. How much more would they have bought this year? How many other countries, finally purchasing again from the U.S. after recovering from the shock of the 1973 soybean embargo, have had their faith in the U.S. as a reliable supplier shattered once more? How can we guess how many tons of wheat and feed grain sales that may have lost the American farmer next year, or the next?

The embargo inflicted a crippling blow on the American farmer this year. The Administration applied a band-aid, and told the farmer not to cry.

That band-aid solution cost the American taxpayer close to $3 billion and has had a minimal effect on the wounded American agricultural economy.

Similarly, the embargo—meant to slay the Soviets—has had a minimal effect on their interventionist policy in Afghanistan. We might have been better off to simply give the $3 billion to the Afghan rebels now fighting the Soviets.

Both the embargo and the recovery effort have been a dismal failure. I think it's time to be realistic and call it quits. Perhaps the Administration ought to take the advice offered a previous administration during the Vietnam war—call the operation a success and get out.

The CHAIRMAN. Thank you, Senator Zorinsky, for a very strong and obviously very heartfelt statement. You pointed out that grain prices went down after the embargo was announced. But did they not rise again once the administration began to take steps to buy up the contracts? I have some figures from USDA.

Senator ZORINSKY. Yes, they did. I agree with that statement.

The CHAIRMAN. The average cash-free market price was 22 cents above the same as of January 4.

That was during the period of the embargo. On July 31, corn averaged $3.11 versus $2.47 on January 4, a huge increase in the price of corn. Soybeans were selling for $1 a bushel above the level of January 4. Exports, agricultural, which in 1979 were $32 billion, this year are expected to be $39 billion, which is $1 billion above what was projected.

So where's the evidence that the embargo is responsible for the farmers' plight?

Senator ZORINSKY. Mr. Chairman, you're figures are accurate, but they don't reflect what there would have been had there been no embargo. I'm not arguing the figures; I'm not arguing with rationales. I'm saying that all the figures that have been presented in this testimony—not one of them hint at what they would have been had there been no embargo.

Based on past history of our ability to increase annually our exports abroad, it certainly would have been much greater without the embargo of the Soviet Union. In fact, if we were to have raised our price instead of inflicting the embargo, the figures you mentioned right now could have even looked a lot rosier than what you presented.

The CHAIRMAN. Rosier for farmers, and I think that's good, as I indicated earlier. I think farm income is too low, and it should be higher, but at the same time, we're facing a situation now, because of drought and because of shortages, and lower yields this year than were expected earlier—USDA's corn estimate, issued on August 11, for instance, projects corn production to be 14 percent below last year's record crop. Soybean production is forecast to be 17 percent smaller than last year. Wheat production is expected to be up 9 percent. But feed grain production is projected to fall 16 percent.

If they're correct, the worldwide production of major grains will be less than consumption this year—which means that the effect of the embargo will indeed be to deprive the farmers of prices higher than perhaps they would have been. But, first, their prices are up, second, if those prices had gone up much further then the food inflation in this country would have been even more severe.

So one effect of the embargo would be to moderate, to some extent, the inflation we're suffering, and that's reflected in the statistics just released 3 days ago, when we saw the producer prices

are up 1.7 percent, primarily because food prices, wholesale food prices, are up so sharply.

CONTRADICTORY FIGURES FROM THE USDA

Senator ZORINSKY. Well, Mr. Chairman, I beg to differ on what the USDA releases impart, so far as figures. Having served on the Agriculture Committee for 3½ years, I've had so many contradictory figures given to me by the USDA that they're nonvalid, in my estimation. I've had three different costs of production of a bushel of wheat given to me by the USDA. They differ with our Agriculture Committee experts in the Senate; they differ with the figures that are given by the land grant colleges. And if I may say so, Mr. Chairman, we have a high degree of accuracy, which reflects inaccuracy in our Government at the present time.

I have found so many misleading figures, even in the intelligence community. I'd cite the statement that says, "Figures don't lie, but liars sure can figure." I think that is what is happening in this country right now.

The CHAIRMAN. Senator Zorinsky, you see the position that puts us in? If we're not going to accept the figures of the intelligence community, if we're going to reject flatly what the USDA gives us, then we're left with no information at all, except the subjective, self-serving positions that all of us take, depending on our constituents' positions.

Senator ZORINSKY. I feel that figures aren't necessary if we do what's in the best interests of this country. And from the people I've talked to in farmland America, who are citizens and taxpayers of this great Nation, they feel that their family income is not covering the costs of production. When government, back here, passes a minimum wage law that has a cost-of-living index hooked onto it, that means every year the baker of bread will get more money for his labor, the driver that delivers the bread will get more money, the advertiser that sells the bread, retailer that sells the bread will get more money for his labor—but a farmer who produces the wheat for the bread will not get any more money.

And what I'm saying is: If it took a two-tier price level, one for export and one for domestic use, this Nation would be far better off. I have just come back from Canada and opted with the Canadians to promote an export commission. Too many times, we've been going to our administration and the Canadian Parliamentary Members have been going to theirs, and they each blame each other: "United States doesn't want to cooperate with Canada." "Canada doesn't want to cooperate with America."

But when Members of Congress meet with Members of Parliament, we seem to find out that that's a phony issue; that the only thing keeping our two nations, which supply 63 percent of the world's exported wheat, the only thing keeping us from cooperating is politics. And I fear that that's what has gotten into this issue of the embargo to the Soviet Union.

The CHAIRMAN. Let me just ask you one more question, Senator Zorinsky. You point out, quite correctly, that the grain embargo has not changed Soviet policy in Afghanistan. Certainly, it hasn't starved the Russian consumer.

But in all fairness, I think you would have to conclude that neither President Carter nor any of the supporters of his decision ever claimed the embargo could force the Russians to leave Afghanistan or cause malnutrition in the Soviet Union.

The President said we could not conduct business as usual with Russians in view of their unprovoked and brutal aggression in Afghanistan, a total violation of the United Nations charter. He said we should make the Soviet Union pay a concrete price for their aggression. He noted specifically in his January 4 embargo address to the American people that the embargo had been designated for animal feed, not feed for human consumption. And the best estimate the President had at the time the embargo was imposed was that the Russians would be able to replace all but 9 of the 17 million tons of the embargoed U.S. grain. Feed grain consumption would drop 5 percent. Soviet meat consumption would be lowered by 4 percent.

Now, the information provided to the committee for this hearing suggests that the Russians are suffering the cost the President intended them to bear. There are firm reports that the strikes in May at the Togliatti and Gorky auto and truck plants were due to food shortages. What evidence leads you to believe that the Russians are not paying the price for their aggression?

RUSSIANS NOT PAYING PRICE

Senator ZORINSKY. I certainly feel I have strong evidence that the Russians are not paying a price for their aggression. Mr. Chairman, are you aware that a subsidiary of an American corporation based in London, England, has sold many, many wellhead covers for oil exploration to the Soviet Union recently? And not only that, the United States has financed those wellhead covers for them for 30 years at 2-percent interest.

Now, that's not hurting the Soviet Union. I think the farmers of America are entitled to more than to be picked out every time that there's a problem with the Soviet Union, saying, "Let's depress the American farmer." What about the other industries? That's why, to me, that's not an argument.

The CHAIRMAN. There's no question about it, but the fact that we've been remiss in these other areas, and we haven't cracked down as hard as we should, does not seem to me to justify an attitude that we should export whatever we can to the Soviet Union in agriculture.

The overwhelming proportion of our exports to the Soviet Union have been agricultural exports, have they not?

Senator ZORINSKY. Yes.

The CHAIRMAN. They just dwarf everything else. So you're dead right in pointing out that this is outrageous and unforgivable conduct in exporting technology of any kind. We shouldn't do it. We should crack down, but that doesn't make it right, for us to then say we will send them all the food they want.

Senator ZORINSKY. Mr. Chairman, the OPEC nations have sent us all the oil we want, for many years, until they suckered us into a position where they controlled the economy of this Nation. My comment is that I feel this country should create a dependency within the Soviet Union upon the purchase of grain from the

United States of America, so we can have the same impact that we attempted to create by the embargo, but which, I think, never was accomplished.

The CHAIRMAN. I can see that argument, but I think that we ought to use that dependency when it makes sense. And it makes sense to use that dependency when the Soviet Union engages in aggression.

Senator ZORINSKY. Obviously, there's no dependency if we ship to their satellites, and the satellites allow the Soviet Union to retain what we would have shipped to them for their own domestic consumption.

The CHAIRMAN. That's a good point, Senator Zorinsky. Thank you for your testimony.

Now we have one of the most patient panels—I hope they're all here—they have waited a long time. I ask Mr. Jack Felgenhauer, president of the National Association of Wheat Growers; Mr. Jerry O'Doud, president of AGRI Industries, West Des Moines, Iowa; Mr. Ray Schaub, vice president for legislative affairs of the National Corn Growers Association; and Dan McGuire, administrator of Nebraska Wheat Committee, Lincoln, Nebr.

I understand Jerry O'Doud has stepped out of the room temporarily, but will be back momentarily. So let's proceed with Mr. Felgenhauer. Gentlemen, again, I apologize for the late hour. If you could abbreviate your statements, we would have the full statements printed in the record. And that will give us time for a little questioning. Go right ahead.

STATEMENT OF JACK FELGENHAUER, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS; JERRY O'DOUD, PRESIDENT, AGRI INDUSTRIES, WEST DES MOINES, IOWA; RAY SCHAUB, VICE PRESIDENT FOR LEGISLATIVE AFFAIRS, NATIONAL CORN GROWERS ASSOCIATION, AND DAN McGUIRE, ADMINISTRATOR OF NEBRASKA WHEAT COMMITTEE, LINCOLN, NEBR.

Mr. FELGENHAUER. Thank you, Mr. Chairman and members of the Banking Committee. I'm Jack Felgenhauer, a Fairfield, Wash., wheat farmer, and president of the National Association of Wheat Growers. I have appreciated the comments that have been presented this morning, and I concur with most all of them.

I just hope that the Russians have suffered as much as you're indicating. We have no way of knowing for sure, as farmers, but we do know that we have suffered. And that's why I'm here to testify in response to your bill, and to support your bill. We think that the embargo should be terminated. It's reached a point of diminishing returns.

The CHAIRMAN. Mr. Felgenhauer, let me just say it is not my bill. I am opposed to that bill. It's the Dole bill.

Mr. FELGENHAUER. You're kind of a devil's advocate this morning.

Rather than read my total testimony, in the interest of time, I'll just omit it and try to bring out the high points in it.

The main thing that I do want to get across this morning is that we feel that the U.S. farmer has suffered enough of the economic sacrifice caused by the embargo. We were told after the embargo

was put in place last January that we would not suffer in excess. We feel that we have, and we're continuing to suffer. The credibility of grain sales to other countries is certainly going to be questioned for a long time. We have no idea how much it is going to cost us.

As has been mentioned this morning, 17 million tons was affected, and of this, we expected to sell some 7.2 million metric tons of wheat during the June 1979 to 1980 marketing year, and 8.5 million metric tons during the October 1979 to September 1980 period. Actual deliveries of wheat have been dramatically less, 4.6 million during June–May, and 2.2 during October–September.

At the same time, the U.S. Government sought the cooperation of the other exporting countries, and this was fine. But as you know, Argentina did not follow along, and the others who said they would cooperate are not following through as we had expected. And as was mentioned in the previous comments, Canada in particular is going to increase their sales this year.

Today, farmers are still receiving less for their wheat than was available on the marketplace prior to the Soviet sale suspension. Wheat prices at the farm gate are averaging about $3.80 per bushel at the present time, compared to the season's low of $3.50, and the preembargo level of $3.88 per bushel.

PRICES FAIL TO RECOVER

Moreover, the failure of wheat prices to recover has coincided with rapid increases in farm production costs, which have further reduced net producer returns. USDA has estimated that the 1980 cost production of wheat is $5 a bushel, and we, the NAWG, have done a study with Chase Econometrics that projects a cost of $5.37 per bushel.

These cost levels are a sharp contrast to the income that producers have been able to receive from embargoed markets.

Now that this Nation's political response to Soviet military actions has been made, it is time for U.S. growers to regain access to a market that can otherwise be supplied by key exporting countries, with the merchandising assistance of U.S.-based grain exporting firms. Though the pledge of cooperative restraint has been made, it's apparent that these countries are continuing to sell more and more grain to the Soviet Union. Furthermore, it is significant to note that the Soviet grain import requirements will be reduced by one-fourth from last season, and with 86 million metric tons of wheat moving in world trade this season—and this amount representing less than 20 percent of world production—an effective sales embargo is very hard to even imagine.

The National Association of Wheat Growers agreed at the January 1980 policymaking convention to accept the President's national security and foreign policy embargo, provided that grain producers were not forced to bear a disproportionate share of the economic burden; however, by last July, it had become too clear that the continuation of the embargo would only further discriminate against grain producers who have shouldered an unfair burden.

The NAWG has now adopted a policy of urging that the Soviet sales suspension be terminated. Our association also recommends that authority be enacted to protect the Nation's farmers from

deep economic injury when national security and foreign policy embargoes are implemented.

Farmers have endured over 7 months of inadequate and price-disruptive actions.

The CHAIRMAN. Mr. Felgenhauer, could you wind up in about a minute or so?

Mr. FELGENHAUER. I will. I'm almost done.

This deficiency must be corrected. In conclusion, Mr. Chairman, I want to restate the NAWG support for this bill, S. 2855, which would terminate the Soviet sales embargo.

We likewise indicate our strong hope that selective use of U.S. grain to address world political tensions will strictly be avoided in the future.

We appreciate this opportunity, and we'd be happy to respond to any questions.

[The complete statement of Mr. Felgenhauer and a copy of S. 2855 follow:]

STATEMENT OF JACK FELGENHAUER, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. Chairman and members of the Banking Committee: I am Jack Felgenhauer, a Fairfield, Washington wheat farmer and president of the National Association of Wheat Growers.

Mr. Chairman, we appreciate this opportunity to present our views regarding proposals before this committee to lift the restrictions on Soviet grain trade which were implemented more than seven months ago in response to the movement of Soviet troops into Afghanistan. The NAWG supports S. 2855, which would terminate Soviet grain trade restrictions on enactment. We believe that the embargo has long since reached the point of diminishing returns for the U.S., and that no justification exists for continued economic sacrifices to be made by the nation's grain farmers, who have been among the Americans singled-out to share this burden.

On January 4, 1980, President Carter announced that the U.S. would suspend all grain shipments to the USSR in excess of the eight million metric tons annually committed under the U.S.-Soviet Grain Supply Agreement which expires September 30, 1981. The action was taken for "urgent reasons of national security and foreign policy" under the authority of the Export Administration Act of 1979.

The President's action blocked shipment of 17 million metric tons of U.S. wheat and corn to the Soviet Union. In the case of wheat, it was expected that the Soviets would otherwise have taken delivery of 7.2 million metric tons during the June 1979–May 1980 marketing year and 8.5 million metric tons during the October 1979–September 1980 period. This level of trade represented 19 percent of the pre-embargo projection of 1979–80 U.S. wheat exports. Actual deliveries of U.S. wheat to the Soviet Union following the embargo amounted to 4.6 million metric tons during June–May and 2.2 million metric tons during October–September.

At the time of the embargo, the U.S. government sought the cooperation of other major grain exporting countries in agreeing not to replace grain that had been denied the USSR. Canada, Australia and the European Community agreed to cooperate; Argentina did not. Also at this time, the Agriculture Department informally asked U.S.-based grain export firms to avoid sales to the Soviets through their foreign affiliates. This restriction was lifted in June 1980, and grain exporters are now free to sell third country grain to the USSR through their affiliate organizations.

Today, farmers are still receiving less for their wheat than was available in the marketplace prior to the Soviet sales suspension. Wheat prices at the farm gate are averaging about $3.80 per bushel nationally, compared to the season's low of $3.50 per bushel and the pre-embargo level of $3.88 per bushel. Moreover, the failure of wheat prices to recover has coincided with rampant increases in farm production costs which have further reduced net producer returns. The USDA has estimated the 1980 cost of production for wheat at $5 per bushel, and a NAWG-Chase Econometrics study projects costs at $5.37 per bushel. These cost levels sharply contrast the income that producers have been able to receive from embargo-disrupted markets.

Clearly, farmers have made substantial economic sacrifices since the Soviet grain sales suspension, and now that this nation's political response to Soviet military actions has been made, it is time to permit U.S. growers access to a market that can otherwise be supplied by competing exporting countries with the merchandising assistance of U.S.-based grain exporting firms.

Though the pledge of cooperative restraint that grain exporting governments made last January remains formally in place, it is apparent that the new degree of cooperation will allow significantly higher levels of sales to the Soviet by Canada, Australia, and the European Community. Only U.S. origin sales to the Soviets are expected to be less than last year's level of trade. Furthermore, it is significant to note that Soviet grain import requirements will be reduced by one-quarter from last season, and with 86 million metric tons of wheat moving in world trade this season—and this amount representing less than 20 percent of world production—an effective sales embargo is very hard to even imagine.

The NAWG agreed at its January 1980 policy-making convention to accept President Carter's national security and foreign policy embargo, provided that grain producers were not forced to bear a disproportionate share of the economic burden associated with the action. However, by July it had become too clear that its continuation would only further discriminate against grain producers who have shouldered an unfair burden resulting from the embargo, and the NAWG adopted policy urging that the Soviet sales suspension be terminated.

Our association also recommends that authority be enacted to protect the nation's farmers from deep economic injury when national security and foreign policy embargoes are implemented. Farmers have endured over seven months of inadequate and price disruptive actions intended to offset the impact of the January embargo, simply because no plan was in place to provide protection in the event their commodities were involved in international political developments. This deficiency must be corrected, in order that vitally-needed stability can be achieved during periods of market disruption and assure that the nation's commodity markets and farm prices do not drop through the floor.

In conclusion, Mr. Chairman, I want to restate the NAWG's support for S. 2855, which would terminate the Soviet sales embargo now that the U.S. political response to Soviet military actions has been made. We likewise indicate our strong hope that the selective use of U.S. grain to address world political tensions will be strictly avoided in the future.

We appreciate this opportunity to present our views, and we will be happy to respond to questions at the appropriate time. Thank you.

II

96TH CONGRESS
2D SESSION

S. 2855

To rescind the agricultural commodity export embargo to the Union of Soviet Socialist Republics.

IN THE SENATE OF THE UNITED STATES

JUNE 20 (legislative day, JUNE 12), 1980

Mr. DOLE (for himself, Mrs. KASSEBAUM, Mr. BOSCHWITZ, Mr. MCGOVERN, Mr. ZORINSKY, Mr. PRESSLER, Mr. BELLMON, Mr. YOUNG, Mr. JEPSEN, Mr. WALLOP, Mr. MCCLURE, and Mr. EXON) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To rescind the agricultural commodity export embargo to the Union of Soviet Socialist Republics.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That any restrictions heretofore imposed by the President on the export and reexport of agricultural commodities to the Union of Soviet Socialist Republics under the authority of the Export Administration Act of 1979 are terminated effective on the date of enactment of this Act.

The CHAIRMAN. Mr. Schaub, go right ahead, sir. We'd appreciate it if you could make your remarks as concise as possible.

Mr. SCHAUB. Thank you, Mr. Chairman. You have a copy of the testimony.

The CHAIRMAN. We'll have it printed in full in the record, if you'll summarize.

Mr. SCHAUB. I appreciate this opportunity to appear before you to discuss the effectiveness of the U.S. restrictions on the corn and grain exports to the Soviet Union. As has been stated, economic and international commercial history has shown that the attempt to impose economic sanctions against trading partners has not worked in the past.

Also, too, this embargo has failed, inasmuch as the Soviet Union has been successful in obtaining the needed grain supply from other major and minor grain exporting countries.

I am a corn and grain producer from Ithaca, Mich., and I'm here on behalf of the National Corn Growers. Our organization opposes the embargo on U.S. corn and grain exports to the Soviet Union for the reasons presented in our initial reaction on January 7. Our reasons are quite simple.

The embargo has not worked. All other countries have maximized their exports and trade with the Soviet Union. This is well documented by the trade data and information released by the U.S. Department of Agriculture.

I would like to comment that our organization does not disagree with the seriousness of the situation in Afghanistan. If the seriousness of the situation is of the magnitude described by the President in announcing the selective restriction of U.S. grain exports to the Soviet Union, then it would require far more effective measures than simply the restriction of U.S. agricultural trade with the Soviet Union.

U.S. REPUTATION AFFECTED

The embargo against the Soviet Union has been a failure inasmuch as a major volume of wheat and coarse grains from Argentina, Australia, Canada, the EEC and other countries are being exported to the U.S.S.R. The lost income to the United States has once again shown the world that we are not the reliable supplier of grains that we have been in the past. The reputation of our country has been clearly affected.

The U.S. embargo has now been in effect for 7 months. I think it's time that we placed this matter in the history books.

The members of the National Corn Growers Association support S. 2855 rescinding the agricultural export embargo and urge President Carter to move ahead and lift the 7-month-old restrictions. Without this, the results we'll see will be similar to those we saw in 1970 in regard to the soybean situation, which enabled Brazil to become a major producer and exporter of soybeans in the world market. Argentina will undoubtedly become the example in the 1980's.

The remaining result is to provide additional incentives for countries such as Argentina and Australia to increase acreage planted to increase annual grain production indicated by the recently announced bilateral trade agreement with Argentina and the Soviet Union and by, just this last week, the announcement of the Argen-

tine grain board of a 2-year grain supply agreement with Mexico. The Argentine Government and farmers will be happy to produce grain for export sales to markets that the U.S. Government prevents U.S. farmers from producing for and selling to.

The members of the National Corn Growers Association would like to state that following the January 4 announcement of the Soviet grain embargo, very little action was taken by the administration to provide income support for corn farmers. Seven months later, the administration, following congressional action, raised the loan rate from the $2.10 to the $2.25, some 7 percent. However, our increased costs this year have been some 25 percent.

Corn prices have only recently improved because of the poor production prospects resulting from the drought. I think irrevocable damage suffered by the corn crop in early August this year had the biggest effect.

The damage to the reputation of the United States as a reliable supplier of corn in the international marketplace cannot be completely erased. Passage of S. 2855 would be a good beginning.

In conclusion, I would like to emphasize that our organization believes in the freest possible flow of international trade in corn exports. In this regard, we completely agree with the late Senator Hubert Humphrey when he stated a few years before his death that "the United States should trade anything with the enemy that can't be shot back at us." Corn exports to the Soviet Union cannot be shot back at the United States.

The embargo has not achieved any degree of results for which it was imposed. Only U.S. corn farmers and the U.S. economy have suffered because of lost export trade and the certainty of increased competition from other countries for not only the Soviet grain import market but other foreign markets as well.

Thank you, Mr. Chairman, for this opportunity to express the position of our organization. I will be pleased to attempt to answer any questions that you or members of the committee might have.

[The complete statement follows:]

U.S. RESTRICTIONS ON GRAIN EXPORTS TO THE SOVIET UNION BY RAY SCHAUB, VICE PRESIDENT, LEGISLATIVE AFFAIRS, NATIONAL CORN GROWERS ASSOCIATION

Mr. Chairman, and Committee Members: I appreciate having the opportunity to appear before you today to discuss the effectiveness and implications of the U.S. restrictions on corn and grain exports to the Soviet Union. Accompanying me today is Michael L. Hall, the Washington Representative of the National Corn Growers Association. In the interest of time in light of the long list of witnesses, I shall contain my remarks to several salient observations about the decision by President Carter on January 4, 1980, to restrict the volume of corn and grain exports to the Soviet Union.

Economic and international commercial history is full of attempts to apply economic and trade sanctions against various trading partners. None of them have been successful during periods in which the international community was not engaged in open and belligerent warfare. The recent effort by the United States to influence Soviet behavior by the grain embargo, among other measures, has also failed inasmuch as the Soviet Union has been successful in obtaining the needed grain supply from other major and minor grain exporting countries.

I am a corn and grain farmer from Ithica, Michigan, and appear here today on behalf on my organization, the National Corn Growers Association. Our organization opposed the embargo on U.S. corn and grain exports to the Soviet Union, publicly announcing our opposition on January 7, 1980, and citing the reasons for that opposition. Moreover, the National Corn Growers Association supports S. 2855, a bill "... to rescind the agricultural commodity export embargo to the Soviet Union."

Our reasons for opposing the U.S. grain embargo and supporting the effort by Senator Dole and other United States Senators to lift the grain restrictions against the Soviet Union are quite simple. The U.S. corn and grain embargo against the Soviet Union has just not worked in terms of substantially curtailing the amount of imported grains required by the Soviet Union. Notwithstanding some public statements of support by other grain exporting countries for the U.S. imposed trade sanctions against the Soviet Union, all other countries have maximized their grain export trade with Soviet Union. I do not believe it is necessary for either me or my organization to cite the numerous examples for substantially increased grain trade by these countries to the Soviet Union. The uncontested assertion is well documented and demonstrated by official grain trade flow data compiled and released by the U.S. Department of Agriculture.

I would also like to comment that our organization does not disagree with the seriousness of the situation in Afghanistan, and not with the reasons behind the decisions by this Administration to express the unexceptability of the actions of the Soviet Union in Afghanistan. On the other hand, our organization fails to realize and understand why only U.S. corn and grain farmers are called upon to bear the financial brunt of the U.S. Government's foreign policy decisions. If the seriousness of the situation in Afghanistan is of the magnitude described by President Carter in announcing the "selective restriction" of the U.S. grain exports to the Soviet Union, then it would require far more effective measures than simply to restrict U.S. agricultural trade with the Soviet Union.

The embargo against the Soviet Union has been a failure inasmuch as the Soviet Union has contracted for near-record or record volumes of wheat and coarse grains from Argentina, Australia, Canada, the European Economic Community and other minor grain exporting countries. The major failure of the U.S. imposed grain embargo is lost income and export markets for the U.S. corn farmer, and lost agricultural export earnings to the U.S. economy. Moreover, the United States has once again shown to the world that it is not a reliable supplier of grains and agricultural commodities to the world market, a further tarnishing of the U.S. reputation as a reliable commodity trading partner. I emphasize that the "United States has once again shown" simply because the decade of the 1970's, and now beginning in the 1980's, has witnessed a series of U.S. imposed grain restrictions and embargoes for numerous reasons.

The U.S. embargo of corn and other agricultural commodities to the Soviet Union has now been in effect for seven months. There have been no favorable developments in Afghanistan—the unobtained goal for which it was imposed. There has been no serious international cooperation by other grain exporting countries for the U.S. imposed trade embargo against the Soviet Union. And there have been no serious limitations suffered by the Soviet Union in obtaining grain import supplies from other origins. Consequently, our organization believes it is time to put this matter into the history books and not to continue to debate whether the U.S. corn and agricultural ebmargo is achieving any desired results.

The members of the National Corn Growers Association support S. 2855 to rescind the agricultural commodity export embargo and urge President Carter to move ahead and lift the seven-month old restrictions of U.S. grain trade with the Soviet Union. Even the lifting of the current embargo will not repair the damage to the reputation of the United States as a reliable commodity trading partner with the Soviet Union—and many other countries as well. The only concrete result of the restriction of U.S. soybean export sales in the early 1970's because of the concern over "high domestic prices" was to pave the way for Brazil to become a major producer and exporter of soybeans and products to the world market in competition with U.S. soybeans and products. One statistic is sufficient to demonstrate this development: in the early 1970's, Brazil produced just about 1.5 million tons of soybeans; Brazilian soybean production in this season is forecast at about 14.5 million tons.

The major :esult of the current U.S. restrictions on corn and grain exports to the Soviet Union will be to provide additional incentives for countries such as Argentina and Australia to increase acreage planted to annual grain production. The recently announced bilateral trading agreement between the Soviet Union and Argentina is the first step in this direction, and the ultimate result will have to be measured in subsequent years as Argentina becomes a greater producer and exporter of coarse grains to the world market. Those who believe that Argentina will not take this opportunity to increase grain exports to the Soviet Union and will not compete to maintain other traditional export markets will be very surprised. Late last week, the head of the Argentine Grain Board announced a two-year grain supply agreement with Mexico, providing for one million tons of grain and oilseed exports each in 1981 and 1982. Coupled with the agreements to supply the Soviet

Union with 4.5 million tons of grains and oilseeds annually during the 1980–85 period and the expected renewal of the agreement with the People's Republic of China for one million tons of grain annually, the Argentine government and farmers will be happy to produce grains for export sale to markets that the U.S. Government prevents U.S. farmers from producing for and selling to them.

The members of the National Corn Growers Association would also like to state that following the January 4, 1980, announcement of the Soviet grain embargo, very little action was taken by the Administration to provide income support for corn farmers because of the substantial back up of committed corn exports into the U.S. domestic market. Almost seven months later, the Administration, following Congressional action, raised the loan rate for corn from $2.10 to $2.25 per bushel. Coupled with the announcement of the embargo, U.S. corn farmers were already facing a price depressing situation late last winter and early spring from the record corn crop of 1979 and lost income from record increases in the cost of production because of record high interest rates and the tight money supply situation. The embargo only compounded the poor outlook for U.S. corn farmer income for the 1979–80 season.

Corn prices have only recently improved because of the poor production prospects for corn, coarse grains and soybeans in the United States and Canada. To now measure the level of corn prices to farmers against the level that prevailed in late December 1979, is erroneous and misleading inasmuch as prices would now be much higher in the absence of the Soviet grain embargo. And the members of my organization believe that corn prices will continue to rise because of the irrevocable damage suffered by the corn crop in July and early August of this year. The bright prospects of higher farm prices to U.S. corn producers is greatly clouded, however, because of the projection of higher production costs for corn production. Therefore, U.S. corn farmers urge that the U.S. corn and agricultural export embargo against the Soviet Union be lifted in order that U.S. corn farmers can compete in the international marketplace and maximize exports to all destinations.

The damage to the reputation of the United States as a reliable supplier of corn to the international marketplace cannot be completely erased. Nevertheless, the passage of S. 2855 would be a good beginning to demonstrate to foreign customers of U.S. corn that we are prepared to learn from our recent past mistake in embargoing corn exports. With the passage of S. 2855, the Administration may react in a similar fashion as with the Senate action on July 25 in increasing the loan rates for corn and other commodities. You will recall that President Carter decided to increase the 1980 loan rates for these commodities on the following work day, July 28, 1980.

In conclusion, I want to emphasize that our organization believes in the freest possible flow of international trade in corn exports. And in this regard, we completely agree with the late Senator Hubert Humphrey, when he stated a few years before his death that "the United States should trade anything with the enemy that can't be shot back at us." Corn exports to the Soviet Union cannot be shot back at the United States; such exports are for animal consumption to then feed people. In the absence of declared hostilities, the attempts to restrict food exports to any country will only further strain the political and economic relations of the United States with the Soviet Union. Consequently, the embargo has not achieved any degree of results for which it was imposed; only U.S. corn farmers and the U.S. economy have suffered because of lost export trade and the certainty of increased competition from other countries for not only the Soviet grain import market but other foreign markets as well.

Thank you, Mr. Chairman, for this opportunity to express the position of the National Corn Growers Association. I will be pleased to attempt to answer any questions that you and the members of the Committee may have.

The CHAIRMAN. Thank you very much, Mr. Schaub.

Mr. McGuire?

Mr. MCGUIRE. Thank you very much, Mr. Chairman, for this opportunity. I'm testifying on behalf of the Nebraska Wheat Committee, which is responsible for protecting and stablizing Nebraska's wheat industry and expanding markets for U.S. wheat.

On January 4, 1980, the U.S. grain embargo against the Soviet Union ground upward Nebraska wheat prices to a halt, turned them around, and sent them tumbling downward. On December 28, 1979, the average wheat price offered Nebraska farmers was $3.77 per bushel. On February 15, 1980, the price had droped 27 cents to $3.50. A month later on March 14th, the price was off 43 cents,

down to $3.31. The downward trend continued, and by the middle of April, the market price had dropped to $3.18, off 56 cents a bushel, compared to December 28.

Since April, the average market price in Nebraska has moved up and down but always below the preembargo price of $3.77 per bushel. As of July 28, the average market price was $3.58 per bushel, still 19 cents below the December 28 level.

To address the issue of whether the embargo of 156 million bushels of wheat actually caused the price decline in Nebraska, I'll cite the same time period just covered. For the first 7 months of 1979, 1 year earlier, December of 1978 saw a Nebraska average wheat price of $2.84 per bushel. By July of 1979, in spite of a very large U.S. wheat harvest, the Nebraska average wheat price had risen 86 cents per bushel to $3.70. The export market was strong at the beginning of both 1979 and 1980. The difference is that the market was allowed to remain strong in 1979. That was choked off in 1980.

The difference in the price trends during the positive period of January to July, 1979, and the negative period of January to July in 1980 is $1.05 per bushel in the wrong direction. Using the average price for the 1979 period, Nebraska growers should have been selling their wheat for an average of 58 cents per bushel higher than they actually did during the last 7 months. That loss of 58 cents per bushel has cost Nebraska wheat growers an estimated $23,200,000 in gross earnings.

SERIOUS STATE ECONOMIC CONDITIONS

While the loss to the Nebraska wheat growers is great, the loss to the other economic sectors of the State has been even greater. Recognizing that every dollar spent by a farmer generates $7 of economic activity, the State of Nebraska has lost $162.4 million to its economy. And those ripple effects are still being felt.

A further serious impact has been felt in Nebraska through reduced retail sales. For example, since January, 10 new car and truck dealerships have gone out of business across the State. Scores more are sitting with their backs against the wall. The Nebraska New Car and Truck Dealers Association also reports that Iowa has lost 70 dealerships; Kansas, 35; and in Missouri, 50 have gone under. Farm implement and supply sales have also felt the impact of reduced farmer spending.

In conclusion, I won't speculate on whether or not the Soviet Union has felt some type of limited impact from the grain embargo. In Nebraska, however, impact speculation is not necessary. Quite simple, the embargo has been devastating to the wheat growers and the State's economy.

Perhaps it's more appropriate now to consider what benefits could have been derived for every U.S. citizen if wheat exports would have been allowed to reach their full potential. And more important is that U.S. wheat exports be allowed to reach their full potential from now forward.

Attached to this testimony is a multiplier impact study conducted by Chase Econometrics which verifies the economic benefits possible for the entire nation if wheat exports are raised to 1.65, 1.87 or 1.94 billion bushels in 1980–81. Increased levels of wheat

exports do reduce the U.S. export balance deficit in the 1980–81 crop year from negative $8.6 to negative $6.4, $4.9, and $3.7 billion respectively.

Higher wheat prices at the same time increase food inflation by only 0.4, 0.6, and 0.9 percent respectively and subsequently increase the overall consumer price index by only 0.03, 0.14, and 0.17 percent respectively.

Farm income also increases by 21, 26, and 34 percent to $28, $29.1 and $30.9 billion respectively. The increase in farm income, combined with the decline in U.S. export deficits, does offset the increase in food inflation during the first year of the study. Real GNP increases by $0.7, $1.4, and $1.6 billion respectively, while employment increases by around 20,000 at the higher export levels.

I would further point out that agricultural exports have been an economic superstart for the United States with the benefits going to every U.S. citizen, urban and rural. I encourage this committee to call for an end to the grain embargo and to take a close look at the Chase study. Wheat exports should be viewed as a readily available tool for strengthening the U.S. dollar, fighting inflation, and creating new jobs.

Thank you.

[The complete statement follows:]

STATEMENT OF DAN MCGUIRE, ADMINISTRATOR, NEBRASKA WHEAT COMMITTEE, STATE OF NEBRASKA

Honorable Chairman and Members of the U.S. Senate Banking Committee: My name is Dan McGuire. I am the Administrator for the Nebraska Wheat Committee of the State of Nebraska. I'm testifying today on behalf of the Wheat Committee which is made up of seven Nebraska wheat growers. The Nebraska Wheat Committee has the responsibility of protecting and stabilizing Nebraska's wheat industry and expanding markets for U.S. wheat on behalf of all Nebraska wheat growers.

As 1979 came to a close, Nebraska wheat growers looked optimistically toward the new year in anticipation of a strong export market for wheat and the likelihood that wheat prices would continue upward, offering the possibility of covering ever-increasing production costs.

On January 4, 1980, the U.S. grain embargo against the Soviet Union ground upward Nebraska wheat prices to a halt, turned them around and sent them plummeting downward. On December 28, 1979 the average wheat price offered Nebraska farmers was $3.77 per bushel. On February 15, 1980 the price had dropped $.27 to $3.50 per bushel. A month later on March 14, the price was off $.43 and down to $3.31 per bushel. The downward trend continued and by the middle of April the market price had dropped to $3.18, off $.56 compared to December 28. Since April, the average market price in Nebraska has moved up and down, but always below the pre-embargo price of $3.77 per bushel. As of July 28, the average market price was $3.58 per bushel, still $.19 below the pre-embargo level on December 28, 1979.

To address the issue of whether the embargoed 156 million bushels of wheat actually caused the price decline in Nebraska, I will cite the same time period just covered but for the first seven months of 1979, one year earlier. December of 1978 saw the Nebraska average wheat price at $2.84 per bushel. By July of 1979, despite a very large U.S. wheat harvest, the Nebraska average wheat price had risen $.86 per bushel to $3.70. The export market was strong at the beginning of both 1979 and 1980. The difference is that the market was allowed to remain strong in 1979 and it was choked off in 1980. The difference in the price trends during the positive period of January to July in 1979 and the negative period of January to July in 1980 is $1.05 per bushel in the wrong direction.

Recognizing that all signs indicated higher wheat exports in FY 80 than in FY 79 and considering the U.S. and world wheat production during both periods, it is reasonable to assume that the upward price trend in Nebraska during the spring of 1979 would have been repeated in the spring of 1980. Applying the 1979 trend to 1980, Nebraska wheat growers could have been receiving $4.63 per bushel on July 28 instead of $3.77. Based on Nebraska's average annual share of U.S. wheat

exports, the grain embargo stopped 8–10 million bushels of wheat from moving out of the state. The wheat that continued to move both to domestic and foreign markets did so at depressed prices. Since January 4, it is likely that Nebraska wheat growers sold 40 million bushels of wheat. Using the average price for the 1979 period, Nebraska growers should have been selling their wheat for an average of $.58 per bushel higher than they actually did during the past 7 months. That loss of $.58 per bushel has cost Nebraska wheat growers an estimated $23,200,000 in gross earnings.

While the loss to the Nebraska wheat grower is great, the loss to the other economic sectors of the state has been even greater. Recognizing that every dollar spent by a farmer generates another $7 of economic activity, the State of Nebraska has lost $162.4 million to its economy. The ripple effects of reduced farmer spending in Nebraska are still being felt and certainly verify the interdependence of the total Nebraska economy upon strong farm prices.

While the lost revenue from decreased wheat prices to Nebraska wheat growers and the resulting lost economic spin-off activity to the state is quite easy to calculate, other losses are not so simply determined. Wheat growers have certainly lost a great deal in the potential interest earnings that could have come about from higher income. Storage costs have been incurred by farmers who were forced to hold their wheat when they otherwise would have sold it. The Nebraska transportation system sat idle with grain hopper cars inactive when they could and should have been moving wheat to export. Now, last year's wheat that could have been exported from the state is competing with this year's wheat, corn, milo and soybean crops for storage and rail space. The entire marketing system has been strained as a result.

Further, serious impact has been felt in Nebraska through reduced retail sales. For example, since January, 10 new car and truck dealerships have gone out of business across the state. Scores more are sitting with their backs against the wall. The Nebraska New Car and Truck Dealers Association also reports that Iowa has lost 70 dealerships, Kansas, 35 and in Missouri, 50 have gone under. Farm implement and supply sales have also felt the impact of reduced farmer spending.

In conclusion, I won't speculate on whether or not the Soviet Union has felt some type of limited impact from the grain embargo. In Nebraska, however, impact speculation is not necessary. Quite simply, the embargo has been devastating to wheat growers and the state's economy. Perhaps it's more appropriate now to consider what benefits could have been derived for every U.S. citizen if wheat exports would have been allowed to reach their full potential. And more important is that U.S. wheat exports be allowed to reach their full potential from now forward. Attached to this testimony is a Multiplier impact study conducted by Chase Econometrics which verifies the economic benefits possible for the entire nation if wheat exports are raised to 1.65, 1.87 or 1.94 billion bushels in 1980–81. The increased levels of wheat exports do reduce the U.S. export balance deficit in the 1980–81 crop year from −$8.6 billion to −$6.4, −$4.9 and −$3.7 billion respectively. Higher wheat prices, at the same time, increase food inflation by only 0.4 percent, 0.6 percent and 0.9 percent respectively and subsequently increase the overall consumer price index by only 0.03 percent, 0.14 percent and 0.17 percent, respectively.

Farm income also increases by 21 percent, 26 percent and 34 percent to $28, $29.1 and $30.9 billion respectively. The increase in farm income combined with the decline in U.S. export deficits does offset the increase in food inflation during the first year of the study. Real GNP increases by 0.7, 1.4 and 1.6 billion dollars respectively while employment increases by around 20,000 at the higher export levels.

I would further point out that agricultural exports have been an economic superstar for the U.S., with the benefits going to every U.S. citizen, urban and rural. I encourage this Committee to call for an end to the grain embargo and to take a close look at the Chase study. Wheat exports should be viewed as a readily available tool for strengthening the U.S. dollar, fighting inflation and creating new jobs on behalf of every U.S. citizen.

WHEAT PRICE SURVEY RESULTS

Selected dates	Average [1]	Average [2]
Dec. 28, 1979	$3.77	
Feb. 15, 1980	3.50	−.27
March 14, 1980	3.31	−.43
Apr. 11, 1980	3.18	−.56
May 9, 1980	3.48	−.26
June 5, 1980	3.29	−.45

WHEAT PRICE SURVEY RESULTS—Continued

Selected dates	Average [1]	Average [2]
July 2, 1980	3.53	—.24
July 28, 1980	3.58	—.19

[1] Average price per bushel at 30 locations.
[2] Average price per bushel increase or decrease compared to Dec. 28, 1979.

Note.—Above are results from seven monthly surveys taken at 30 country Grain Elevators in Nebraska between Feb. 15 and July 28, 1980. Average monthly price decrease for the period: —$0.34/bu.

TREND FOR THE DECEMBER 1978—JULY 1979 PERIOD FOR NEBRASKA WHEAT PRICES

(1 year previous)

Month	Average price per bushel	Average [1]
December 1978	$2.84	
February 1979	2.79	—0.05
March 1979	2.83	—.01
April 1979	2.88	+.04
May 1979	2.98	+.15
June 1979	3.31	+.47
July 1979	3.70	+.86

[1] Average increase or decrease compared to December 1978.

Note.—Sample of Wheat Price Survey is attached.

Source: Nebraska Crop and Livestock Reporting Service.

Average monthly price increase for period: +$0.24/bu.
Negative difference indicates the average price trend during the seven month period in 1980 compared to the same period in 1979: —$0.58/bu.

LATEST WHEAT GROWER SURVEY SHOWS FURTHER LOSSES

Location	Cash price Dec. 28, 1979	Cash price Apr. 11, 1980	Decrease per bushel
Sutherland	$3.71	$3.16	$0.55
Hershey	3.71	3.15	.56
Paxton	3.71	3.20	.51
Grant	3.63	3.15	.48
Hemingford	3.57	3.10	.47
Hemingford	3.54	2.99	.55
Alliance	3.63	3.00	.63
Alliance	3.59	2.98	.61
Berea	3.58	3.06	.52
Crawford	3.75	3.10	.65
Chadron	3.75	3.10	.65
Gering	3.75	3.21	.54
Morrill	3.77	No bid	
Potter	3.85	3.24	.61
Sidney	3.83	3.15	.68
Kimball	3.74	3.28	.46
Chappell	3.74	3.15	.59
Gurley	3.71	3.13	.58
Plymouth	3.88	3.43	.45
Jansen	3.94	3.45	.49
Beatrice	4.01	3.47	.54
Daykin	3.97	3.49	.48
Maywood	3.83	3.16	.67
Imperial	3.73	3.10	.63
McCook	3.69	3.17	.52
McCook	3.75	3.10	.65
Lincoln	4.15	3.58	.57

Average decrease in price—$0.56.

CHASE ECONOMETRICS,
Bala Cynwyd, Pa.

IMPACT ON THE ECONOMY OF INCREASED EXPORTS OF WHEAT

INTRODUCTION

Several economic studies have been done which address the impact of increased wheat prices on food costs and subsequently the detrimental effects of higher inflation on economic activity. However, very little, if any, research has been undertaken to compare the overall impact of increased wheat exports on U.S. balance of payments, higher farm income, and increased output from agriculture against higher food costs on the overall economy.

This study subsequently attempts to assess the total impact of higher wheat exports and prices on the economy by increasing wheat exports to specified levels and then measuring the resulting increase in wheat prices against the improvement in the U.S. balance of trade, increased purchases by farmers as farm income increases and higher output from the agriculture sector due to increased wheat shipments. The results are summarized in Tables 1–4.

In the analysis, U.S. wheat exports were assessed at levels which would increase the No. 1, N. DK. Spring Wheat, Minneapolis price to $5.00, $5.50 and $6.00 by the end of the 1980/81 market year and maintain these average prices through the 1981/82 season.

Wheat exports in 1980/81 had to be increased by 250 million, 475 million, and 546 million bushels, respectfully. This increase in agricultural exports did reduce the U.S. deficit export balances in the 1980/81 crop year from $-8.6 billion to $-6.4, $4.9 and $-3.7 billion respectfully. Higher wheat prices, at the same time, increased food inflation by only 0.4 percent, 0.6 percent and 0.9 percent respectfully and subsequently increased the overall consumer price index by only 0.03 percent, 0.14 percent, and 0.17 percent respectfully.

Farm income also increased by 21 percent, 26 percent and 34 percent to $28, $29.1 and $30.9 billion. The increase in farm income combined with the decline in U.S. export deficits did offset the increase in food inflation during the first year. Real GNP increased by 0.7, 1.4 and 1.6 billion respectfully while employment increased by around 20,000 at the higher export levels.

During the second year U.S. wheat reserves are more depleted; therefore, wheat costs and higher farm income combined with improved trade balances offset each other.

TABLE 1.—AGRICULTURAL IMPACT OF HIGHER WHEAT EXPORTS IN THE 1980–81 MARKETING YEAR

	Standard	Alternatives [1]		
		1	2	3
Wheat prices (dollars per bushel):				
Minneapolis No. 1 N. DK. (Spring)	4.00	4.92	5.28	5.84
Kansas City No. 1, HRW	4.09	5.12	5.46	6.03
Durum wheat, Minn	5.28	6.56	7.13	7.52
Farm price (U.S. average)	3.62	4.77	5.10	5.78
Wheat exports (million bushels)	1,400	1,650	1,875	1,946
Total prices received by farmers, 67=100	$254.0	$260.5	$262.0	$265.0
Farm income proprietors (billion)	$23.1	$28.0	$29.1	$30.9
Agricultural exports; current (billion)	$38.4	$40.9	$42.4	43.9

[1] Alternative 1—$5, Minneapolis, No. 1, N. DK. Alternative 2—$5.50, Minneapolis, No. 1, N. DK. Alternative 3—$6, Minneapolis, No. 1, N. DK.

TABLE 2.—AGRICULTURAL IMPACT OF HIGHER WHEAT EXPORTS IN THE 1981–82 MARKETING YEAR

	Standard	Alternatives		
		1	2	3
Wheat prices (dollars per bushel):				
Minneapolis No. 1, N. DK. (Spring)	4.25	5.05	5.47	5.99
Kansas City No. 1, HRW	4.30	5.13	5.57	6.12
Durum wheat, Minn	4.69	5.73	6.30	6.98
Farm price (U.S. average)	3.73	4.88	5.33	5.90

TABLE 2.—AGRICULTURAL IMPACT OF HIGHER WHEAT EXPORTS IN THE 1981–82 MARKETING YEAR—Continued

	Standard	Alternatives		
		1	2	3
Wheat exports (million bushels)	1,470	1,560	1,680	1,780
Total prices received by farmers, 67=100	$271.2	$279.1	$281.7	$285.1
Farm income proprietors (billion)	$26.2	$32.0	$33.5	$35.6
Agricultural exports current (billion)	$43.7	$45.0	$46.2	$47.9

TABLE 3.—ECONOMIC IMPACT OF HIGHER WHEAT EXPORTS ON THE U.S. ECONOMY IN THE 1980–81 MARKETING YEAR

	Standard	Alternatives		
		1	2	3
GNP, $72 billion	1400.3	1401.0	1401.7	1401.9
Industrial production index, 67=100	147.7	147.9	148.0	148.0
Employment, million	89.02	89.02	89.04	89.04
Net exports goods and services, billion	−8.6	−6.4	−4.9	−3.7
Inflation: Implicit GNP deflator, 72=100	188.5	188.8	188.1	188.9
Consumer Price Index, 67=100	269.3	270.3	270.9	271.7
Total	288.1	288.2	288.5	288.6

TABLE 4.—ECONOMIC IMPACT OF HIGHER WHEAT EXPORTS ON THE U.S. ECONOMY IN THE 1981–82 WHEAT MARKETING YEAR

	Standard	Alternatives		
		1	2	3
GNP, $72 billion	1437.8	1437.5	1437.6	1437.4
Industrial production, 67=100	156.3	156.4	156.4	156.4
Employment, million	90.6	90.6	90.6	90.6
Net exports, goods and services, billion	−5.3	−4.9	−3.9	−2.5
Inflation: Implicit GNP deflator 72=100	205.7	206.0	206.0	206.1
Consumer Price Index, 67=100: Food	295.6	296.7	296.7	297.6
Total	288.1	288.2	288.5	288.6

The CHAIRMAN. Thank you very much, Mr. McGuire. Has Mr. O'Dowd come back?

[No response.]

FARM EXPORTS SET NEW RECORD

The CHAIRMAN. Mr. Schaub, this whole argument is really about the effect of the embargo on our exports, our farm exports. Isn't it true that farm exports are up this year, despite the alleged effect of the embargo? In fact, isn't it true that farm exports will set a new record this year; they've never been higher in our history?

The Department of Agriculture estimates 155 million tons. This isn't just in inflated dollars but in tons of U.S. agricultural commodities which will be exported this year, generating earnings of $39 billion. Both the tonnage and the dollars generated will exceed all records. We have never had anything like this level of exports before in our history.

How much more could we realistically expect to export? A large share of the grain that we would have sold to Russia, we sold elsewhere, didn't we?

Mr. SCHAUB. What you state, Mr. Chairman, is correct; however, after coming off the record production years, statistics show that we needed to export more than we have exported. Our balance of trade needs to have the exports.

The CHAIRMAN. But we're exceeding the projections. They projected this year we would sell $38 billion worth of farm exports. It's exceeded that; it's $39 billion, and in spite of the embargo.

Mr. SCHAUB. I think the real question raised was the fact that the reliability and dependability of the United States as an exporter to those countries has been damaged, even though the United States continued this drive to generate new markets. The embargo puts us in a position where our dependability with the Soviets and other world countries who depend upon us as a supplier of grain, food, or whatever it might be is unreliable.

The CHAIRMAN. But we have consistently followed a policy of refusing to export, to sell to countries for foreign policy reasons. Nothing new. We've done that, as we indicated earlier, to Cuba. We've done that to Cambodia. We've done that to Iran. So this is not a new policy. It's not as if this is the first time we've ever done it. It shouldn't surprise people that we do it; that's what we believe in. We believe deeply enough in our foreign policy to put our money where our mouth is. That's the way we have to do it.

Mr. SCHAUB. Why is it necessary that one particular sector of the United States be asked to bear the major portion of this, rather than distributing it to everyone?

The CHAIRMAN. I think that's right. I think some steps have been taken. Maybe they aren't enough, but some steps have been taken to take the amount that would have been sold off the market.

Mr. SCHAUB. I think it's been very minimal compared to what it should have been in this portion of the industry.

The CHAIRMAN. We took 4 million tons off the market, 4 million tons of wheat off the market. No corn, it's true, went off the market, but we took other steps to increase the price of corn.

Mr. SCHAUB. In our calculation, the amount of loss to the American corn farmer, based on just the 11 million metric tons that was intended for us was some $2 billion. Had the price moved in the direction as it did during the previous embargo, I think it's realistic to anticipate that our loss to the American farmers was at least $2 billion.

The CHAIRMAN. Let me ask you this. Would you support the embargo if all of the burden were taken off the farmers—in other words, if it were distributed equitably through the tax structure, so that the taxpayer would pay it?

Mr. SCHAUB. I think the problem I have is with the method of the embargo. I think I stated earlier that embargoing a product is not the right approach; rather placing the emphasis on the cost of the product, increase the tariffs that are necessary, to the purchasing countries and not just saying, you can't have the product. I think it would be good both for the producers and for the economy of the country and would be a much better step in that direction.

The CHAIRMAN. Both Mr. Felgenhauer and Mr. McGuire gave some very impressive statistics on the effect of the embargo on U.S. wheat exports. You cited the fact that U.S. wheat exports to Russia are below expected levels due to the embargo.

EXPORTS SAME AS LAST YEAR

My question for each of you—we'll start with Mr. Felgenhauer—what about total U.S. wheat exports? Are they below expected levels, and if so, how much so?

Mr. FELGENHAUER. Well, initially they were, but there have been other sales that have made up for some of the anticipated losses.

The CHAIRMAN. They're no longer below, then; is that right?

Mr. FELGENHAUER. Wheat exports are now projected at 1.4 billion bushels for this year. That was about what USDA originally aniticipated, but the importing countries will be different. Many of them, in turn, probably reshipped to Russia.

The CHAIRMAN. Maybe, maybe not, but the fact is, as far as the farmers are concerned, if you sold the same amount that you would have sold anyway, what's the loss?

Mr. FELGENHAUER. We've our credibility because of anticipated sales to Russia that didn't take place. They went to other countries. I'll admit this is because of the demand, but we could have had these additional sales also, which would have created a better price. It's the price that we really have been hurt by, and it's hard to say what it would have been if we'd had the Russian sales. But not having them, we've been hurt.

And as I pointed out in my testimony, prices are still below preembargo levels.

The CHAIRMAN. Let me ask you, Mr. McGuire, in answer to that question, but also to answer whether holding off the market the 4 million tons of wheat that would have gone to Russia, why isn't that action sufficient to offset the effect on wheat farmers?

Instead of selling the 4 million tons of wheat to Russia, we just hold it off the market.

Mr. MCGUIRE. I'd just cite a specific example of how that whole system works. They did buy up indirect purchases, bought wheat up in Nebraska, and of course then the CCC owns that wheat. And if an elevator wants to move that wheat, they have to get shipping orders from the CCC to move it. Now sure, it's off the market, but 90 days is what it has taken to get shipping orders for one elevator in Nebraska from the Kansas City office of CCC, so there's a problem right there. This elevator has this wheat now still in storage, and the new crop got piled on the ground as a result of that. So there's the inefficiency of that system.

I heard someone mention psychological impact on the Soviet Union as a factor. The psychological impact of that grain weighing over the market, I suspect, has quite an impact on investment prices.

The CHAIRMAN. Let me ask each of you gentlemen to respond to this. You all favor rescinding the embargo on the grain sales to Russia. Do you also favor lifting the embargo on sales to Iran, and if not, why?

Mr. FELGENHAUER. That's an entirely different point.

The CHAIRMAN. It's always a different point.

Mr. FELGENHAUER. In the first place, the embargo against Russia is not a complete embargo; it's a partial embargo. Right today, they've already bought 22 percent of those 8 million tons.

The CHAIRMAN. The embargo to Iran is not a complete embargo either.

Mr. FELGENHAUER. It is, as far as U.S. wheat going to Iran is concerned.

The CHAIRMAN. I see what you mean, because the 8 million tons were already contracted for.

Mr. FELGENHAUER. That's correct. It's not an across-the-board embargo.

The CHAIRMAN. That's something that will be taken care of as soon as that's used up. We made a commitment on that, a definite, specific contractual commitment. That was different.

Mr. FELGENHAUER. The Russians may have moved troops into Afghanistan, but they didn't take any of our people as hostages.

The CHAIRMAN. My goodness, you say they've moved troops into Afghanistan. They've murdered thousands and thousands of innocent Afghanis. They aggressed against them—outrageous behavior—I can't think of anything worse. True, Iran has taken our hostages. So far, fortunately, the hostages haven't been killed. We hope and pray they won't be—terrible conduct on the part of Iran. But what the Russians did is certainly at least comparable, and the terrible action they've taken against the Afghanis——

Mr. FELGENHAUER. Well, I won't argue that point. It's just a dastardly thing.

The CHAIRMAN. But on the other hand, even though it's a dastardly action, you'd say you would embargo Iran, but you would not embargo the Soviet Union. Is that right?

Mr. FELGENHAUER. We supported the embargo initially. All we're saying today is that we feel it's run its course. It's served its purpose, and it needs to be ended—get back to business as usual, because we're still selling wheat to Russia right today.

The CHAIRMAN. How about Cuba?

Mr. FELGENHAUER. That's another subject, another country.

The CHAIRMAN. Maybe so, but if we're going to embargo the Cubans because they follow a terrible Communist policy of outrageous behavior, denial of human rights, outright murder of their people in many cases, the Russians are just as bad or worse. Furthermore, they've engaged in aggression against a free country.

How can you be consistent and say that we should embargo Cuba but not Russia?

Mr. FELGENHAUER. The embargo against Cuba has been going on for a good many years now. Are you saying that we should continue to embargo Russia, even at the same time when we're supplying grain to Russia? We're allowing shipment of 8 million tons this year.

The CHAIRMAN. That was a contract that was absolute and specific. We've already moved a lot of that wheat and corn to them.

Mr. FELGENHAUER. When you look at our balance of trade, already there's negotiations. There's a meeting with the Russians just in the last 2 or 3 weeks over in Paris. And I'm sure they probably did discuss future arrangements as far as grain sales to Russia.

The CHAIRMAN. Let me ask Mr. McGuire to comment. Then I'm going to have Senator Jepsen introduce Mr. O'Doud.

Mr. MCGUIRE. I suspect the embargo you referred to on various other countries, comparing them to the Soviet Union—and their effectiveness, to me neither are effective. Whatever country it might be can still get flour that's milled from wheat.

The CHAIRMAN. So you'd lift the embargo on all these countries?

Mr. MCGUIRE. I think that they're not effective. If they were effective, perhaps there's some rationale for them. I don't believe they're effective, therefore they're not working, therefore what good are they.

The CHAIRMAN. So we should sell agricultural products to Cuba, North Korea, Vietnam, Campuchea, and Iran?

Mr. MCGUIRE. Until there's such a system or a vehicle for controlling them from getting it through transshipments or through processed products.

SOVIETS PAY A BILLION DOLLARS MORE

The CHAIRMAN. Now, we know, that the Soviet Union, for example, and it's true in these other countries, probably have to pay more. In the Soviet Union's case, the evidence is that they pay a billion dollars more. We know that they're not getting as much as they want. That's the best evidence we have. People deny it, but they're losing about 6 million tons that they otherwise would get.

And in the case of these other countries, they may also be losing some. So we're inflicting some specific tangible loss on each of those countries.

Mr. MCGUIRE. Your point about them paying a higher price is very well taken. I suspect that if we could have gotten that increased foreign exchange through increased sales and taken that money and put it to work in developing maybe increased military capabilities or something, we might have done——

The CHAIRMAN. That reminds me of a quotation that's been attributed to Lenin: When the Communists get ready to hang the capitalists, the capitalists will sell them the rope.

As long as it's good business, what difference does it make; sell them the rope. That was the old argument with the Japanese, you know, that we sold them the steel and it came back in the bodies of American boys.

Mr. Schaub.

Mr. SCHAUB. I think partly in reference to your question, is my understanding incorrect that Iran refused U.S. grain?

The CHAIRMAN. What's that?

Mr. SCHAUB. That Iran refused to buy U.S. grain; is that incorrect? If so, the embargo to them is in a different light than what it is in regard to the Russians. I think there is a difference between the embargo and the refusal to purchase from us. However, there is some question how you discriminate successfully between one country you embargo and another you do not.

I think we come back to the point, there is a significant difference and we're looking at the relations that countries have in world power and in regard to other things, such as the military strength that we're referring to. I think we have to evaluate more than just the embargo of grains to them. I think there has been

some effect, but I think, as I said before, the effects are past. And the effects are continuing have very little significance to the Russians.

The CHAIRMAN. Well, pardon us again, Senator Jepsen. You've spent too much of your time here, although you've been very patient, you had fine testimony, and I apologize for delaying you twice today. Won't you introduce Mr. O'Dowd for us?

Senator JEPSEN. Yes, Mr. Chairman. I would like to introduce Mr. Jerry O'Dowd, president of AGRI Industries.

The CHAIRMAN. Why don't you come forward, Mr. O'Dowd, and sit in this chair here.

Senator JEPSEN. Mr. O'Dowd is very much involved in the sales of grain. Some estimated 90 million bushels were at least lost in this embargo. So that's about half a billion dollar economy. I think Mr. O'Dowd has some very positive testimony in that respect.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Jepsen, very much.

Mr. O'Dowd, this is an awkward and unusual situation. We have three gentlemen who have waited patiently. You have waited very patiently today. Could you summarize your statement in about 3 or 4 minutes? Would you want to do that? Or how do you want to do it?

Mr. O'DOWD. I'll try and skip around a little bit.

The CHAIRMAN. Do it as fast as you can. I've got a couple more questions I'd like to ask each of you. It's a very late hour already.

Mr. O'DOWD. First of all, Mr. Chairman, I do appreciate the opportunity to be here and appear before you this afternoon and share with you our organization's perception of the effect of President Carter's suspension on grain sales to the U.S.S.R. January 4.

As Senator Jepsen mentioned, my name is B. J. O'Dowd, Jerry O'Dowd. I'm president of AGRI Industries, a regional grain marketing cooperative representing some 325 country elevators in Iowa, South Dakota, southern Minnesota, and Nebraska. We don't have any in Wisconsin yet, but we're looking forward to that.

AGRI Industries operates four barge-loading facilities on the Mississippi River, two soybean processing plants, a terminal in Des Moines, Iowa, and an export elevator at Lake Charles, La. Traditionally, we market someplace between 400 and 450 million bushels of grain.

I would like to note especially that our company, despite the pleas of our members—and we have some 325 members, who are owned by 130,000 farmers—we're not immediately critical—as a company we were not—of the embargo. We had a meeting with Secretary Bergland, along with some 150 of our member elevators.

We were concerned about the ability to unwind the sales. We were concerned about the some 90 million that we estimated out of our handle would go for export. But we didn't try to interfere. We felt basically we'd like to think we are flag-waving Americans, that if this was good for the country, why so be it, we'd try and suffer through it.

FAILED TO RECOGNIZE IMPACT OF EMBARGO

I do think that we failed to recognize the serious impacts the effect of the suspension would have. It was like there was a party line call and everybody quit buying. It didn't just affect the farm

family, which is an over-abused acronym today. It affected the whole economy. I'm talking about the plants, I'm talking about the shops, I'm talking about the stores, I'm talking about virtually the whole economy.

We'd gone through the period of 1973 through 1975 and really hadn't known that there was a, quote, "recession," because the farm economy was strong. But we estimate—and it's in my testimony—that we took some $59½ million off the price of grain because of it. But I guess—and I do feel that grain prices have come back significantly, livestock prices have come back. There was a long period this winter when there wasn't a thing our farmers were doing to make money except dairying. We leave most of the milking to Wisconsin. So it was a sad situation.

I do think that one of the factors, the reasons the market has come back, certainly most significant is the drought. And I'd like to think it would be hard to determine what the market would be today if we had the business and the drought. I think it's a poor method of trying to raise the price.

You know, we can't blame the embargo for the shortage of money that went on this spring, and so forth and so on. I do think there's one thing that people tend to forget. The people that had to sell their grain during this low price were the young farmers getting started. The one who was in a better position to weather this is probably perhaps still with it. But it forced the starting farmers and some of the marginal people that had to sell it during this very depressed market.

To sum it up, the current embargo and all previous embargoes cannot be totally effective. With the responsiveness of the international grain market, grain will find its way in time to any part of the world where it's needed. The Russians undoubtedly were able to secure much of the supply they wanted from other nations, and this surely created demand for American grain from other sources.

You indicated, how do we feel about Cuba, Iran, and so forth. I didn't realize this was one of the subjects today.

But the Canadians are selling corn to the Cubans. You know, they are getting the grain.

I guess the problem I have is, basically, you know, we in business have to admit our mistakes. It shows in the market every day. Why couldn't the administration admit that they tried something, it was like the military involvement in Iran, and it failed? Why not come out and say, maybe we were wrong? Because I think it's a disservice to this country, and especially to the agricultural part of it.

I think the personal sufferings experienced by thousands of people in the grain-growing Midwest in the first 6 months of 1980 cannot be ignored or disregarded. It is very real, sir.

Thank you very much.

[Complete statement follows:]

STATEMENT OF B. J. O'DOWD, PRESIDENT, AGRI INDUSTRIES, DES MOINES, IOWA

Mr. Chairman, members of the committee, I appreciate being given the opportunity to appear before you this morning and share with you our organization's perception of the effects of President Carter's suspension of grain sales to the Soviet Union on January 4 of this year.

My name is B. J. O'Dowd. I am president of AGRI Industries, a regional grain marketing cooperative headquartered in Des Moines, Iowa. AGRI Industries is owned by 325 country elevator cooperatives, mostly in Iowa, but a few in South

Dakota, southern Minnesota and Louisiana. These country elevator cooperatives are owned by 130,000 farm families.

AGRI Industries operates four barge-loading facilities on the Mississippi River, two soybean processing plants, a terminal in Des Moines and an export elevator at Lake Charles, Louisiana. This year, we will market more than 450 million bushels of grain for our members, about 70 percent of which is exported.

I would like to note that our company, despite the pleas of our members, was not immediately and vocally critical of the embargo. With the help of Sen. John Culver, we were able to arrange a meeting in Des Moines, the week after the embargo began, between about 150 of our elevator managers and Secretary Bergland. That meeting was not devoted to criticisim of the suspended sales, but to an unemotional discussion of procedures which might minimize the economic and transportation impact of the President's action.

We were more concerned, at that time, with the methods used in "unwinding the sales" and preventing a cataclysmic situation with transportation since commitments has been made to move Iowa's part of those sales to export points. We estimated that 90 million bushels of the 400 million bushels of feed grains directly affected by the suspension was slated to move through our marketing organization. We pledged our cooperation to Secretary Bergland in development of strategies to smooth out the market and transportation effect of the suspension of grain deliveries to the Soviet Union.

We recognized there was a strong effort by Secretary Bergland and other federal officials to minimize the economic impact of the embargo. We applaud that effort. And we assumed that, with more government ownership of grain and an increasing emphasis on sales to other countries, the market would soon adjust to the changed circumstances and would regain its pre-embargo position.

We seriously underestimated the market effect of the suspension of grain deliveries to the Soviets. We had not measured accurately the market psychology of denying the Russians the right to buy all the American grain they wanted and needed. It became clear to us within 60 days that the supply-demand balance had shifted and that a pall had come over the market which was not likely to disappear in this crop year.

When the drought in the Midwest began—and the worldwide concern about that drought brought increased forward purchases—that cloud over the market disappeared. It is our feeling that as of now—and probably beginning about the first of July—the market effect of the embargo has been totally eliminated. The demand for Midwest corn and soybeans is very strong and is likely to remain so during the upcoming market year.

But from January 4 through the first half of June, at least, the economic effect of the embargo on all Iowans was devastating. The direct effect can best be illustrated by price trends during that period. Prior to President Carter's speech, AGRI Industries was bidding its member elevators $3.20 per bushel for corn delivered to the Gulf during the first half of June. On May 30, for first half June delivery at the Gulf, we were bidding $2.78½. That is down 41½ cents—and there were many days during March and April when the spread was even wider between pre-embargo and post-embargo forward bids.

Even on soybeans, the psychology of the embargo took its toll, although soybean sales were not directly affected by President Carter's action. On January 4, we were bidding $7.19½ for first half delivery at the Gulf; on May 30, that bid was down to $6.26—or a reduction of 93½ cents per bushel.

During that four and one-half month period when the markets were under what we had to conclude was "embargo pressure", our purchases from the country elevators were down substantially. But even so, we bought about 20 million bushels of grain per month or 110 million bushels in total. And our records would show that, assuming 75 percent corn and 25 percent soybean purchases during that period, the average reduction in per bushel prices was 54 cents—or a total of $59.4 million.

It is true, of course, that no one can state with certainty that the decline in market prices can be attributed solely to the suspension of grain sales to the Soviet Union. But we know of no other major market factor that surfaced during the January-June period. The size of the 1979 crop had already been fairly accurately determined, the worldwide demand had been measured, and the measure reflected the supply-demand balance that prevailed at the time. Nothing major occurred to explain the downward pressure on grain prices except the massive supply-demand adjustment resulting from the cancellation of the purchases by the Russians.

Devastating as that $59.4 million reduction in grain receipts during that period was—and that kind of reduction is devastating in a small State like Iowa—even more hurtful was the indirect effect of the downturn in grain prices. Those farmers

who did not have to sell grain from January through June reflected in their buying patterns their extreme concern about low grain prices. And that kind of pessimism is highly contagious in Iowa; when the farmers get worried and quit buying freely, our whole economy goes topsy-turvy.

Iowa's biggest employer is John Deere, with five huge plants in our State employing over 30,000 people. That farm implement company—and others with factories in our State—had wholesale lay-offs. Unemployment in Iowa went to levels not experienced in over 25 years. I can tell you, having lived all my life in Iowa and the middle west, that I have never seen the people so depressed, so unconfident of the future. The people in agriculture—and that tends to include almost everyone in Iowa—thought they could produce grain and sell it to the entire world. The new thought that sales to the 265 million people in the Soviet Union might be forbidden—not only temporarily but permanently—was shattering to our people.

One could certainly not blame the embargo alone for the shortage of money in Iowa this spring and early summer, nor the high cost of the money that was available. But it surely contributed to that problem. Farmers selling corn for less than $2.00 per bushel, and more fortunate farmers not selling grain at all for several months, were major factors in usually flush Iowa country banks being forced to limit loans to longtime customers.

Iowans have been lucky until this year. Because our State is so agriculturally-oriented, and because agriculture has been so strong the last eight or ten years, economic downturns noted in other parts of the nation have been almost unnoticed in Iowa. The 1973-75 recession, for example, left Iowa relatively untouched.

But, gentlemen, the first six months of 1980 have wreaked economic havoc in Iowa. Both grain and livestock prices are now good in our State and Iowa is lucky in that we'll have a good crop this year. When 1980 is over, we may find that farm income has not suffered the severe decline widely forecast a few months ago. But as of now, we have to conclude Iowa and Midwest farmers—and the businesses so dependent upon those farmers—have suffered substantially because of a market drop that we can only attribute to the suspended grain sales to the Russians.

To sum up, the current embargo—and all previous embargoes—cannot be totally effective. With the built-in responsiveness of the international grain markets, grain will find its way, over time, to any part of the world it is needed. The Russians, undoubtedly, were able to secure much of the supply they wanted from other nations; this surely created demands for American grain from other sources.

But the psychology of an embargo, the Government stepping in to interrupt what was essentially free trading of American grain, has a devastating effect on market confidence. When that confidence is shaken, even though it may only be for a short time, the market must react. It did that—and our farmers took a beating. Whether the embargo-induced market drop will have a significant effect on the economic welfare of grain-growing parts of the nation over time cannot yet be determined.

But the personal suffering experienced by hundreds of thousands of people in the grain-growing Midwest in the first six months of 1980 cannot be ignored or disregarded. It is real.

Thanks for your attention.

The CHAIRMAN. Thank you very, very much, Mr. O'Dowd, for a very fine statement. All four of these statements have been, I think, excellent. You've made a fine record.

Let me ask you, sir: Senator McGovern said earlier today something that I think we should all be reminded of, and that is that farmers are just about as patriotic Americans as we can find anywhere. They live on the soil, they're part of the soil, they love this country. And I think we all have to agree that that's the case.

Now, the effect a repeal of the embargo would have on our foreign policy and on the credibility of every President in the future—not just this President—would seem to be very serious. Can you name any country that constitutes a greater threat to the United States than the Soviet Union, or any country which would like more to see us appear weak and vacillating in our foreign policy? And wouldn't we appear to be weak and vacillating if the President of the United States, particularly this President, announced that, well, he's changed his mind, he's going to let the embargo go away; it wasn't a very good idea in the first place;

maybe it was then, but not now; so we'll just repudiate it and sell the Russians whatever feed grain they need.

Mr. O'DOWD. Well, it would be rather ridiculous to say that we have a greater threat to this country than the Soviet Union. You mentioned earlier that we sold a lot of steel and so forth and so on to the Japanese, and now they've become one of our strongest allies. I guess I question—and I'll leave it up to the statesmen—whether this is a good means.

I frankly question the feasibility or the righteousness of using food to barter in this sort of a situation.

The CHAIRMAN. Let me just interrupt, Mr. O'Dowd, to say: You said earlier that in business we admit our mistakes. And that's a very good attribute: Cut your losses, know when you're wrong, and change when you ought to change. But the administration's expectations, as they stated at the time the embargo was instituted 7 months ago, have been carried out almost precisely to the letter. According to the statistics we have, they said how much they expected this to reduce the amount of wheat going to the Soviet Union and corn going to the Soviet Union, and the estimates just about are on target. They said how much more they expect the Soviet Union would be expected to pay, and they've paid just about that much more.

They did not say they expected the Soviet Union to pull out of Afghanistan, because they didn't expect that. So how can they, under these circumstances, now say: Well, it was something it was all right to institute to begin with, but now the situation has changed. It hasn't changed.

Can you point out any discrepancy in those original estimates that have not been confirmed by the facts?

Mr. O'DOWD. No, I think the facts speak for themselves. I question the effectiveness, total effectiveness of the embargo and what it set out to do. I question whether it's in fact done it. Now, you folks are in a lot better position to know the results of it than we are out in the hinterlands. But from the information we perceive, it looks to us like it's been rather ineffective and it's put a lot of people in business in competition to us. That's all we're here for, sir.

And I mean, sincerely I question—I don't question the reasons behind it, but I do question the results. And I mean this sincerely from the bottom of my heart: I think it's a bad commentary for this country, I really do. That's my own personal viewpoint.

The CHAIRMAN. Well, Mr. Felgenhauer, let me read you one statement and ask you to comment on it. Senator Stevenson, as you may know, agrees with you on just about every aspect of this, disagrees with me and disagrees with the Department of Agriculture and the President. He condemned this program at the beginning. He thought it was wrong, thought the President was wrong, thinks it hasn't worked now. He thinks it was a disaster.

UNDERCUTTING PRESIDENTIAL DECISIONS

But he says this: the Dole bill, which is the bill you support—and I quote from what Senator Stevenson said in his opening statement this morning—"The Dole bill would rescind the embargo by Act of Congress, thereby humiliating the President and undermining the

credibility of every future President." He said: "I do not believe the United States can maintain its security if Congress insists upon undercutting presidential decisions in foreign policy."

What's your response to that?

Mr. FELGENHAUER. I think if President Carter had been here and listened to the testimony that's been presented here this morning, he would perhaps change his mind. I've talked with the President personally on this matter, and with him it's a matter of principle and I respect him for that. And he says that until the Soviets change their Afghanistan policy he's going to maintain the embargo. I don't know for how long, because I don't know how long he's going to stay in power, even.

The CHAIRMAN. You see, what you're asking us to do is, by an act of Congress, to force the President, to compel the President to back down. In other words, as Senator Stevenson says, to humiliate the President. And should we do that or should we simply take the record that's available to the administration and let the administration make a decision?

Mr. FELGENHAUER. That's why I say I wish he were here. I think that maybe he would be more convinced from the testimony that's been presented. I think it would be humiliating for him to have the Congress go over his head. And I hope this doesn't have to be done. But I hope that through a hearing such as this that he will get the point that it has served its effectiveness and it's going to hurt his farm vote out in the country to continue the embargo. And I think that that would be a better approach to convince the President.

The CHAIRMAN. Just one more question for Mr. McGuire. This isn't a highly significant question, but it's one that I've been very interested in in economics, and I've been working on almost nothing else but economic policy for the last 30 years, and I'm fascinated by your statistic that indicated that for every dollar of income the farmer gets, that increases the income in the economy generally by $7. I'd like to ask you, A, where you got that; B, if that applies to anybody else, including a Senator? In other words, if my income is increased by $1, does that increase the income of everybody else by $7 on the assumption that I spend it?

Mr. MCGUIRE. The calculation is from the University of Nebraska. It is based on the fact that when the farmer receives $1 in income, it generates, when he spends it through the economy, in terms of creating jobs, in terms of moving goods, in terms of transportation and support services, it generates $7 more in economic activity related to his purchase.

The CHAIRMAN. Why wouldn't that apply to everybody else? Why wouldn't that apply to a tool and die worker?

Mr. MCGUIRE. I'm sure that there is a relationship there that would apply in some proportionate terms, but I am not aware of that.

The CHAIRMAN. Would it be more or less than $1 spent anywhere else? Would the $7 for the farmer be higher or lower?

Mr. MCGUIRE. I don't have any documentation of whether it is or not. It is my assumption that it might be higher than the average.

The CHAIRMAN. The farmer might be higher. How about the argument that our No. 1 problem, economic problem, is inflation, and that anything that would stimulate the economy to the extent

of sevenfold is something we should be very careful about, because if we get to that kind of stimulation double-digit inflation might become triple-digit inflation.

Mr. McGUIRE. I think that will have to be weighed against the benefits of employment and the benefits of income, of course, from those people who are employed, which generates taxes, which is what our economy is all about, I guess: people working, People generating income, and people spending money, it seems to me.

The CHAIRMAN. If you could give the staff that source at the University of Nebraska, I'd appreciate it.

Gentlemen, I thank you very much. You've done an excellent job. We appreciate your testimony.

The committee will stand in recess until 9:30 tomorrow morning, when we'll hear from other witnesses.

[Whereupon, at 1:05 p.m., the committee was recessed, to reconvene at 9:30 a.m. Wednesday, August 20, 1980.]

SUSPENSION OF U.S. EXPORTS OF HIGH TECHNOLOGY AND GRAIN TO THE SOVIET UNION

WEDNESDAY, AUGUST 20, 1980

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 9:40 a.m. in room 5302, Dirksen Senate Office Building; Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Garn, Tower, Kassebaum and Lugar.

STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

Our first witness is Senator Dole. I might just tell Senator Dole that Senator Boschwitz is on his way. When he comes I am going to ask him to sit in the other chair at the witness table and follow you in his presentation.

This morning we resume hearings on the effectiveness of the trade sanctions President Carter put into effect in January in response to the Russian aggression in Afghanistan. The purpose of those measures, as President Carter said at the time, was to make the Russians pay a concrete price for their aggression. The President believes, and so do I, that the United States cannot conduct business as usual with the Russians in the light of their unprovoked and brutal attack on an independent nation.

Now, no one, not the President, not anyone else, suggested that the trade restrictions would force the Soviet Union to leave Afghanistan. And no one charged that this would cause starvation in Moscow. The objective was to make the Russians pay a price for their behavior, and the best evidence the committee has received up to this point suggests that the Russians are, in fact, paying a price.

First, the National Security Council estimates that the Soviet Union has been able to replace only 6.2 million metric tons of the 17 million metric tons that it planned to buy from the United States; and will be able to replace no more than 8 million metric tons by September 30 of this year, leaving a shortfall of 9 million metric tons.

Second, the Defense Intelligence Agency estimates that the Soviet's attempts to buy grain elsewhere to replace U.S. grain will cost them $1 billion more than the U.S. grain would have cost.

So here we have two tangible, specific costs to the Soviet Union of the embargo. No 1, that they will be 9 million metric tons short. Two, that they have to pay $1 billion more.

Third, the Agriculture Department reports that the Soviet Union was denied the equivalent of about 10 percent of its requirement of grain for feed in the first 6 months of this year. Fourth, meat production in the Soviet Union has gone down every month since February. They appear to have done considerable distress slaughtering in January and February, and production in June was 11 percent below last year's total for June. Meat and dairy products are in extremely short supply throughout the Soviet Union, according to the reports from all available sources.

Six, the director of the Defense Intelligence Agency, Lieutenant General Tighe has testified that the recent strike at the Togliatti truck plant, and I quote, "was undertaken in direct protest against the variety of foods that was available." So here we have shortages, and here we have at least one strike which the Defense Intelligence Agency informs us was undertaken in direct protest against the shortage of food.

Seventh, the denial of phosphates in all forms further aggravates their agricultural problems; and the cutoff of the spare parts and computers and other high technology items will affect Soviet production as well. These effects are not so easily measured as grain and meat consumption, nor so easily discussed in a public hearing, although we will hear something more on them from the administration witnesses later today.

Yesterday we heard a number of distinguished witnesses testifying to the economic plight of the American farmer. Farm income is down. Parity is at the lowest level it's been at any time since the beginning of the parity index, except in 1932; lower than it was throughout the Great Depression except in that one year.

Farmers really suffer. There is no doubt about that. The question is whether the drop in income is due to the embargo or due to other factors. Our witnesses yesterday made strong arguments that the embargo has had a severe effect on the market for U.S. grain, perhaps due more to psychology than actual economic considerations. But there are some powerful arguments on the other side as well.

First, U.S. agricultural exports are setting new alltime records this year, despite the reduced sales to Russia. Agricultural exports were $32 billion in fiscal 1979. In November 1979, before the embargo, agricultural exports for fiscal year 1980 were projected to be $38 billion.

Now, what are agricultural exports? Are they $32 billion as they were last year? They are $39 billion. Are they $38 billion, which was projected for this year before the embargo? They are above that. They are $39 billion; a new record of tonnage of 155 million tons, as well as by far higher in dollars.

Second, last October, long before the Russian aggression in Afghanistan and the President's action, the USDA outlook conference predicted a drop in farm income by about 40 percent for this year, because of large supply, the imminent recession and other factors. Now, as low as farm income is, it is still above those projections of last October before the embargo.

Third, U.S. Department of Agriculture reports, and I quote:

On July 31 the average cash wheat marked price is 22 cents above the same average on January 4 before the embargo. On July 31 corn averaged $3.11 versus $2.47 on January 4. Soybeans are selling for $1 per bushel above the level on January 4.

Finally, recent crop reports suggest that the drought will cause much lower yields this year than were expected earlier. USDA's crop estimates issued on August 11 project corn production to be 14 percent below last year's record crop. Soybean production is forecast to be 17 percent smaller than last year. Wheat production is expected to be up 9 percent; but feed grain, that is corn, sorghum, oats, and barley combined is predicted to fall 16 percent below last year's high.

Now, if the U.S. Department of Agriculture is correct, worldwide production of major grains will be less than consumption this year. We will need all our grain to meet our own requirements and those of our regular non-Russian customers abroad.

So Senator Dole and Senator Boschwitz, you gentlemen, I think, face a challenge. I am sure you are up to it, but you face a challenge to meet the facts that we have before us that indicate that the embargo has seriously hurt the Soviet Union; that it has cut their meat production. This meat production loss has resulted in riots, resulted in dissension. The farmers have suffered, but have not suffered because of the embargo. They have suffered for other reasons. And the price, as a matter of fact, since the embargo was put into effect, has gone up and agricultural exports have reached an alltime high.

I will be happy to hear your presentation, Senator Dole, unless Senators Garn, Kassebaum, and Tower have a statement.

STATEMENT OF SENATOR TOWER

Senator TOWER. Yes, I have a statement, Mr. Chairman, and I will try not to detain my colleagues too long.

Mr. Chairman, I am disturbed that the President has reacted to what he and his administration consider to be the most serious and dangerous act of aggression with a grain embargo that was put together as a spur-of-the-moment foreign policy decision. Think of it—food as a weapon to deter military invasion, that kind of action lacks the backbone that has been the foundation of U.S. security.

Were there not other options available to the President? I might suggest that we could have strengthened our strategic arms and conventional forces to a degree that our Communist friends could not mistake our position.

As I travel around, I find that the embargo is indeed having a tremendous adverse impact on our farm economy. It's simply not working. Our agricultural producers are victims of a weak foreign policy, one that invites aggression, and an administration that is unable to obtain the support of our allies in uniting against the Russians.

I sincerely believe the President has failed in his commitment to the country and to the American farmer to minimize any adverse effects of the embargo. Only due to a severe drought in this country have farm prices shown recent increases. USDA efforts to minimize the program have been cosmetic and late in coming.

As we hear testimony today from our colleagues, and as we hear it later from administration officials, I hope that some questions that exist regarding the embargo will be addressed. I am not sure that the administration will give answers that are fulfilling. I would hope the conflicting reports on the impact of the suspension of grains would be cleared up.

As I understand it, the Soviets have acquired all but 6 million metric tons of grains from other sources, and potentialy have gained another 2 or 3 million metric tons from U.S. sources via transshipments from third countries. I also understand that Soviet meat production is down less than 1 percent.

These statistics do not reflect the administration's projections of damage that the embargo is to have on the Russian citizen. As I interpret this data, I find the working Russian forfeits a mere 2.2 pounds of meat over the course of 1 year—definitely not a drastic belt-tightening experience for the Soviet family. In fact, it is only about a quarter of a pound per month. A quarter of a pound.

We see, Mr. Chairman, that our response to Soviet aggression is the moral equivalent of a Big Mac attack. Yet this is the extent of the punishment the President deems necessary to inflict on the Soviet Union for committing "the most dangerous act of international aggression since World War II."

Mr. Chairman, I trust that our panel of administration witnesses to follow later can enlighten our committee as to the President's current policies on acts of international aggression and state to us under what conditions the President would lift the grain embargo. Thank you.

The CHAIRMAN. Thank you, Senator Tower.

Senator Dole.

STATEMENT OF ROBERT DOLE, U.S. SENATOR FROM KANSAS

Senator DOLE. Thank you. I appreciate this opportunity to testify. What I will do is summarize my statement and ask that it be made part of the record.

The CHAIRMAN. It will be printed and put in the record.

Senator DOLE. I would say at the outset that I know that you have administration witnesses here, and they will be claiming all sorts of good things about the embargo. Prices are higher than ever, panic in the streets in Moscow, and all those things have been suggested by Secretary Bergland.

I don't believe the average American will [illegible] that line; but that is the administration line: that they have done a great service to the American farmer, a great service to the taxpayer, and a disservice to the Russians. But the facts are different than that.

As Senator Tower just pointed out with the Big Mac reference, a Big Mac contains about a quarter pound of meat. So you are just about on target. And with reference to recovery, it says here—this is the USDA report on the embargo, some recovery expected and slaughter waste and levels of cattle slaughtered during the second half of the year. USDA forecasts Soviet meat production in calendar year 1980 at slightly below the 15.5 million tons produced in 1979.

So, I would hope that when the administration witnesses come, they won't exaggerate; they will just tell the truth, because farm-

ers want the truth. The truth is that their prices are lower. The truth is if there is any increase in prices it is because of the drought. The truth is that President Carter said in Wichita, Kans. in 1978, that as long as he was President there wouldn't be any embargos. These are the truths.

Now, they can suggest anything they want. But the point is it has had a disastrous effect on farmers. Not in Wisconsin. You don't produce wheat. You don't export much in Wisconsin. We export a lot, Texas and Kansas and maybe some in Utah. So it affects our farmers.

I would assume if we were exporting milk and this hearing were on trying to lift an embargo on something of that kind, we would have the distinguished chairman on our side. So we understand the politics of it. We understand that this administration is trying to have it both ways.

FARMERS NOT TOLD

I am here as one who imposed the Ford embargo. In fact, I defended that to the bitter end in the 1976 campaign. It was pretty hard to defend, because I didn't believe it in the first place. But it probably had a sharp political impact on President Ford's political fortunes in 1976, not because farmers were unwilling to make a sacrifice, but they were never told what the sacrifice was.

And as I look back on January 4 and President Carter's announcement, I received a call as a member of the Agriculture Committee from someone in the USDA, and he asked me five questions about the embargo. And they had already made up their mind to do it. I was asked, I think in a perfunctory way, what I thought about it, what I would recommend. And I answered the question. So there was at least notification, if certainly not consultation, of some of us who were on the Agriculture Committee.

But all we want to do—and I might suggest, I certainly suggested yesterday, a bipartisan group of Senators. I doubt that we have the votes. I mean, there is no doubt in my mind that if those who support the administration's view would prevent us, could probably have the votes from prevailing as far as rescinding the embargo. But there are 21 or 22 of us, I think 10 Democrats and 12 Republicans, a bipartisan group—oh, yes. Most of us are from farm States. But our latest cosponsor is Senator Kennedy from Massachusetts.

There are some who initially supported the embargo who are now cosponsoring the resolution; an indication that they felt at the outset, and with justification perhaps, that the President should be supported, this was an important matter, but have since changed their mind because the embargo has been totally ineffective.

NEVER A TOTAL EMBARGO

Now, I think all the requests for reference to the facts that the President did announce that 17 million tons of wheat and corn plus soybean meal, oil and other products would be embargoed. I think it well for the record to reflect that this never was a total embargo. We continued to ship grain to the Soviets all the while we are talking about embargo of 17 million tons. There is some evidence that we ship a lot of other things to the Soviet Union.

So the embargo wasn't total. But it was disastrous as far as those in rural America who had relied on this sale. And I think as I look back on it, perhaps it wasn't so much to impact on the Soviets as it was to impact on consumer prices in America, because farm prices were increasing at that time, and one way to dampen the enthusiasm for farm prices was to impose an embargo. And it had that effect. Farm prices dropped very sharply.

There are more consumers in America than producers. The producers are not well organized. They don't have the political clout to come before this committee. They rely on those of us who represent their views, but we don't have enough in the Congress. And so the farmers have to rely— they are almost at the mercy of any administration, whether it's dairy, whether it's wheat, whether it's soybeans, whether it's cattle, hogs. And I should hope that as I travel around my State, I find the average age of farmers is 56 years of age. And I find many young farmers, 35 and under, in the throes of bankruptcy.

But I think we ought to be concerned. And I am certain the chairman is, and I am certain every other member of this committee is concerned. It is not that the farmers are unpatriotic. It is not that they are unwilling to make a sacrifice. They have been making sacrifices all their lives on the farm. And it is not that they expect parity. They know they are not going to get parity from this administration. I think they may have some doubts about the next administration.

But in any event, they do like to believe that they could make a living and they can make a profit and they can do it in the marketplace, if the Government wouldn't interfere, whether it was President Nixon who embargoed soybeans and we lost the market to Brazil, or whether it's President Ford or President Carter.

Now, if there is some sound foreign policy, and if there is some demonstrated impact because of that foreign policy initiative, then the farmers would accept it. But I defy anybody in this administration to tell us it has really had any impact on the Soviet Union. If it has, then somehow it has escaped the attention of the American farmer and many other experts in the field.

I would just quote a couple of areas, and I have heard all the administration. Bobby Smith, Assistant Secretary, saying that we are summer soldiers and sunshine patriots who are for the embargo as long as it demands neither patience nor sacrifice. Ray Fitzgerald, another nonpartisan bureaucrat in the ASCS saying we all know in a national election year those critics become milder and shriller. They spring up like mushrooms after a warm, spring rain; and like mushrooms, they soon disappear.

Well, maybe this is some satisfaction to the administration, but it offers very little hope to the American farmer; but I don't really believe it is very good politics on the part of the administration. But again, that is a judgment they have already made.

Now, Governor Reagan said on July 3, and I think Governor Reagan will continue to express his views, that national security must be our priority. He has expressed that, and he is going to express it again today in Boston, by the way. He expressed it again in the Chicago area this week about our national security.

So, I don't want to sit here, and I don't represent Governor Reagan, but on July 3, 1980, a number of us did go to the U.S. Department of Agriculture. We did, at that time, state Governor Reagan's view. And I think, as he said at that time, the American farmer is willing to bear his fair share of the burden and make the sacrifices necessary to assure that this goal is met. But like every American, the farmer wants to know his sacrifice is indeed fair, that it is necessary, and that it has a reasonable chance of achieving worthwhile national security objectives.

I just hope that this committee in its wisdom, knowing all the pressures you are getting from the administration, knowing all the tales they will be telling about the success of the embargo, that you would give the Senate a chance to work its will on this matter.

Farm income is down, the administration admits, 25 percent. We believe it's probably computed as nearly 38 to 40 percent. And you add that to the recent National Governors' Association meeting held in Denver, Colo., after much lobbying the administration was successful in beating down that resolution, and all that resolution said was agriculture embargos are ineffective, depress prices, cost the taxpayers billions of dollars, and jeopardize future sales of agricultural commodities. And that resolution lost after intensive lobbying. The vote was 19 to 14 to defeat the resolution.

Again, the administration sort of wrapped their argument in the flag and indicated that those who took issue were somehow unpatriotic.

I think the farmers resent that. I think their record of service in America is outstanding.

Now, just a couple of other articles. Clayton Fritchey, I'm not certain he's a farm expert, but he wrote a piece in the Washington Post called Wheat and Peace.

"The President's own Department of Agriculture concedes that the Russians had no difficulty filling their grain need by buying it elsewhere."

As Senator Tower pointed out, I assume the net loss was about 6 million tons, but then there's leakage of 3 or 4 million metric tons, which means they may have lost a couple of million tons out of—what's their total demand—about 228 million metric tons. I mean, it's infinitesimal. So it's not any substantial loss to the Soviet Union.

Fortune magazine reported the embargo provides an illuminating case study of a limited American economic power. In other words, the Russians had to pay a price for their aggression.

So, also, it turned out, did the American taxpayer. The American farmer and the American grain companies, when Carter announced the embargo on Friday, he went quite a bit overboard.

After consultation with other principal grain-exporting nations, he said, "I am confident they will not replace these quantities of grain by additional shipment on their part to the Soviet Union."

It turned out to be confidence sadly misplaced. The chance of a successful second statement was bleak.

Australia, Canada, and the Europeans have indicated that they will cooperate.

Export levels make a mockery of the enterprise. Canada and Australia have said they would limit exports to 3.8 million and 3.9 million tons, respectively, in 1981.

That's close to the prior year's levels, so they don't make any sacrifice. Canada dropped out of the U.S.-led embargo. They've done fairly well.

They agree that we've made a blunder, and I just suggest, Mr. Chairman, that for all the reasons that have been given by other witnesses, Democrats and Republicans, I agree with Governor Reagan when he said that Jimmy Carter's grain embargo should be ended now.

I support Governor Reagan's position, but beyond that, beyond the politics of it, I support the farmers' position.

IMPACT ON THE TAXPAYER

The Democratic farmers of my State, the Republican farmers of my State, the independent farmers of my State, I would again suggest it's had a big impact on the taxpayer. We all admit that. It's going to cost about $1.4 billion to taxpayers.

It's had an impact that's been estimated to $7 to $10 billion down the road on American agriculture. But it hasn't had much of an impact on the Soviets.

So I just suggest with all the sincerity I can muster, let's report out the resolution. I think the President would like to forget about it. He doesn't know how to handle it because he sort of jumped the gun on the embargo.

The President stuck with it, I don't think it's having any impact at this time, but it has had an impact on prices. Maybe the President will be saved by the drought, maybe with enough farmers suffering from the drought, prices will increase and they will reach preembargo prices before November.

But I've been in Kansas for 10 days, I visited the elevators, I know that the wheat farmers still receive less then the embargo level, and I suggest the time has come to end a very bad policy.

The CHAIRMAN. Thank you, Senator Dole.

Senator BOSCHWITZ.

STATEMENT OF RUDY BOSCHWITZ, U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator BOSCHWITZ. Thank you, Mr. Chairman.

Back on January 22, Secretary of Agriculture declared that he was in complete agreement with President Carter's assertion that the Soviet invasion of Afghanistan constituted, I quote, "The most dangerous act of international aggression since World War II."

Secretary Bergland went on to say that the President had only three alternatives at his disposal. One, to ignore the act, two, to intervene militarily, or three, rebuke and punish the Soviets by imposing sanctions that would include a partial suspension of grain sales.

The President, as we know, exercised the latter option. In addition, he stopped the opening of some new consular offices, stopping the shipment of high technology, with which I agree, curtailing Soviet fishing privileges, which didn't amount to anything, and also, not sending our atheletes to the Olympics, which was a rather

weak response for an international act that he stated was "the most dangerous act of international aggression since the Second World War."

The President did, indeed, believe that the Soviet invasion of Afghanistan marked a new and more dangerous phase of Soviet policy. He should have taken appropriate action, something along the lines that Senator Tower suggested.

Our decision to boycott the Olympics and withhold grain hardly constitute an adequate response to what is allegedly the greatest crisis since World War II. It was a poor substitute for real action.

And I'd be happy to answer any questions on what I regard real action to have been. I would answer much in the vein that Senator Tower suggested.

Following the invasion, the President revealed that "Brezhnev was not telling me their facts accurately." And thus, "My opinion of the Russians has changed more dramatically in the last week then even in the past 2½ years."

Apparently, President Carter had been unimpressed by such recent Soviet behavior as setting up combat brigades in Cuba, Soviet-backed incursion in Angola, Mozambique, Yemen, Ethiopia, Cambodia and, of course, on ongoing buildup of their arms.

Though every American viewed the invasion of Afghanistan as a dangerous Soviet expansionary act, the President, in saying it was the most dangerous since the Second World War, really is ignoring some other major events in which that act can be suitably compared.

AGGRESSIVE ACTIONS OF THE RUSSIANS

Immediately after the Second World War the Russians began what was to be a series of aggressive actions. The list includes the Berlin blockade, the Korean war from 1950 to 1953, the Soviet invasion of Hungary in 1956, the 1962 Cuban missile crisis, the 1968 invasion of Czechoslovakia, and the 1973 Yom Kippur war in the Middle East, during which President Nixon faced the threat of Soviet invasion of the area, placed American forces on nuclear alert.

And, of course, through the entire period, Mr. Chairman, there has been enormous Soviet arms buildup that has occurred to offset the balance of world peace and stability.

Mr. Chairman, I don't mean to represent that the grain embargo was an entirely useless act. We had sold about 25 million metric tons, principally grain, to the Russians. At the time of the embargo, about 5 million had already been shipped, as I recall, for some reason, despite the fact that this was "the most dangerous international action since the World War," the President decided not to cancel all existing contracts, only the 17 million tons of grain.

Somehow, an underlying contract of 8 million tons was more sacrosanct and couldn't be violated, despite the violation of Afghanistan.

Whatever damage has been done to the Russian economy, and I really think it has been minimal, clearly, it will be for 1 year only. Mr. Chairman, this is because grain is a fungible commodity. It's produced by 125 countries in the world, and as Senator Dole sug-

gested, it is very difficult to identify and is hard to control once it enters the international market.

The scramble that took place in world markets after the embargo resulted in the Russians replacing most of the embargoed items, and there is a certain dissension about what the shortfall is. I tend to think it's around 3 million tons, the administration says 6 million tons.

But, as Senator Dole has also said, that has to be put in the perspective of the entire Soviet need, which will be close to 230 metric tons in 1980.

So the shortfall is somewhere between 1⅓ and 2⅓ percent of their total consumptions. That certainly is not an overwhelming shortfall. It certainly is not pounding out the harsh punishment for what was termed the most dangerous act since the Second World War.

However, the damage to our domestic economy, Mr. Chairman, was certainly real. Quite clearly, for a period of months, prices receded sharply from the levels 2 weeks preceding the embargo. I always compare it to the levels preceding the embargo, because that's when talk of the embargo leaked out and that's when a recession in the prices, because of the embargo, really began.

I can quote all kinds of figures, but I presume that's been done before, and you are familiar with them.

The administration says that the prices were affected by a large psychological factor more than market demand. That may be true, but the prices went down, nevertheless, and were exacerbated by a very large market supply and sharply declining interest rate.

Market conditions were thrown in disarray, at least in Minnesota. Many farmers were unable to cash out, to repay their banks, settle their affairs, and make the necessary arrangements for the coming crop year.

And, as you know, Mr. Chairman, that normally occurs in the early months of any given year. Minnesota banks found themselves in dangerously high loan positions. More farm bankruptcies occurred than at any time in my memory and some say since the 1930's.

It was a difficult time, Mr. Chairman. Every Member of the Senate who has a farming constituency had bankers and farmers telling them all about it.

Let me add a little personal dimension to it. As you know, I am a merchant in rural America, having many outlets in North and South Dakota, Iowa and Minnesota, and Nebraska. I can tell you that when the farmers stop buying, the entire rural economy suffers.

In Minnesota, there are about 105,000 farm families. They constitute about 10 percent of our population and when they stop buying, the impact on the whole of rural America is felt.

The entire small-town atmosphere tightens up and people do not buy. Mr. Chairman, it was clearly traced to the inability of the farm community to merchandise its crops in the early part of this year.

A great deal of this occurs in the early months, when new planning is contemplated, that bank settlements and new loans for forthcoming crops are planned.

pages tightly bound

The cost to the taxpayer was about $3 billion. Up to half of that may be repaid in the course of time as the loans become due, but somewhere between $400 and $600 million in interest will have been lost on that money over the course of time.

Furthermore, Mr. Chairman, I can tell you that the loss in income taxes in rural America is real. In the last deficit that we experienced in our budget, certainly the decline in income taxes, paid by the companies that I am familiar with, is very real.

EMBARGO NOT A FAIR TRADE-OFF

I don't think there has been a fair trade-off, Mr. Chairman. Some proponents of the embargo do think so. They connect the strikes in Poland to the embargo, and to food shortages. I emphasize again that the figures concerning grain supplies in Russia, show that the Soviets have experienced a 3 to 5 million shortfall.

There's one further point which members of your committee, Mr. Chairman, are more familiar with than I. That is, the Export Administration Act, which sets procedures and standards by which the President can implement export and import controls in the case of national security.

The President cannot enact export controls, without prior consultation with the Congress and affected businesses, if he does so for foreign policy reasons. I know that the President speaks to these actions in national security terms, and I suppose that's the reason for doing so.

But it's hard, except by great indirection, to tie grain to military movements. My offhand opinion is that this is the type of activity that we in the Congress and in the Senate have been trying to prevent.

So, Mr. Chairman, in conclusion, I don't think there's a person in rural America, and my distinguished colleague from Kansas would agree, who doesn't feel that if we could inflict some punishment on the Russians, that indeed, we would do so.

And that the farmers and rural Americans will stand the gaff just as urban Americans would. I don't believe, in this case, it was a fair trade-off.

It may well be that most of the damage from this embargo has already been done, because within a period of time, the Russians will seek and have sought out new sources of supply and those sources of supply, if they supply the Russians, will not be able to supply their other customers unless they increase their own production.

So some of that will come to us as a possible customer and possible sources for sale. But it wasn't in balance, Mr. Chairman.

The American rural community, not just the farmers, but the entire American rural community, suffered undue harm for a foreign policy objective that might have been more fairly achieved.

The CHAIRMAN. Thank you, Senator Boschwitz.

Senator Dole, you've done a lot of thinking and speaking on foreign policy. You've been a candidate for Vice President and President. You've been an outstanding Senator for a number of years, chairman of your party.

I know you're deeply concerned with our foreign policy and the effect of legislation on foreign policy. As you know, Senator Steven-

son is a very thoughtful member of this committee. He agrees with a great deal of what you and Senator Boschwitz have said.

In fact, I think he agrees with everything except passage of your bill. He disagrees with that for this reason, and I'd like to challenge you to respond to what Senator Stevenson has said.

HUMILIATING THE PRESIDENT

He said:

The Dole bill would rescind the embargo by act of Congress, thereby humiliating this President and undermine the credibility of every future President.

I do not believe the United States can maintain its security if Congress insists upon undercutting presidential decisions on foreign policy.

What is your response to that?

Senator DOLE. Well, he makes a point. If the President would do it voluntarily, I'd be happy to withdraw my legislation, at least to indicate that it's no longer necessary.

I think there have been many efforts to reach agreement with the President, certainly members of his own party have indicated to him, Senator McGovern most recently, indicated on Meet the Press on Sunday, he talked to President Carter last week, suggesting that he lift the embargo.

I'm not certain they're in a position to do that now. I don't quarrel with Senator Stevenson's point. He is a thoughtful member of this committee, and I've said honestly that you should never take away all the options a President has.

That's why I would never ask any candidate for President to say flatly that he would never impose an embargo. President Carter shouldn't have said that, but he did. And maybe President Ford did. No, he didn't, I guess.

Because you have to leave that option in case of some international confrontation and conflict. Obviously, you have to have that authority.

But here, it's fairly obvious, except for administration spokesmen, who are stuck with the embargo, that it's been a failure. Then I think I would disagree with Senator Stevenson.

The CHAIRMAN. Well, you're saying, then, that we should take this action which, I think, could be construed internationally as a humiliation of the President of the United States and a weakening of his Office and a threat to future Presidents who also might have their foreign policy initiative of this kind upset.

Senator DOLE. I don't want to get into the question of humiliating the President, because in the eyes of many farmers, he did that when he imposed the embargo.

I think Congress can't back away from its foreign policy responsibility. Plus the economic responsibility we have.

I go back and look at some of the statements made by Secretary Bergland, who is now here, maybe he'll comment on it later. They were saying on January 13, and again on January 16, that Soviet meat production would likely fall by 5 to 8 percent in 1980.

By early July, USDA had dropped that to six-tenths of 1 percent. President Carter told a group of Congressmen on January 8 that it would cut their meat consumption by 20 percent.

You know, so we've had all these statements made, they're not accurate, there's no evidence to back them up and I think in this case, Congress ought to step in and take some action.

LIFTING EMBARGO ON OTHER COUNTRIES

The CHAIRMAN. As you know, the Soviet Union isn't the only country to which the United States has embargoed shipments of grain and other things. The others are Iran, Cuba, Vietnam, North Korea, and Campuchea. Do you favor lifting the embargo on Iran and these other countries?

Senator DOLE. No.

The CHAIRMAN. What's the difference? Why not?

Senator DOLE. I think there's a great difference. We have diplomatic relations with the Soviet Union. We have long-term agreements with the Soviet Union on sales. They also consume some of the feed grains and wheat that we sell them. I don't know how much all the other countries put together would consume.

But there are other reasons. Certainly, Vietnam, Cuba, Iran—Iran is holding—I think we ought to have a total blockade of Iran, if you want my view, and not let anything in or out of that country.

The CHAIRMAN. Aren't you outraged and shocked by what the Soviet Union has done in Afghanistan, invading this country, in complete violation of the rights of the country, murdering Afghanistani people? Isn't that something that should evoke some reaction on the part of this country and certainly shouldn't the reaction be at least as severe as it is against Cambodia?

Senator DOLE. No doubt about it. I mean, I'm shocked and outraged and all that. But the troops are still there. They're not going hungry because we haven't sent them a few million tons of wheat.

I sort of have the philosophy that the late Senator Humphrey used to discuss in the Agriculture Committee: He'll sell them anything they can't shoot back, which isn't a bad attitude, because they're going to spend their dollars for food rather than weapons.

So I'm not certain we did the Soviets any disservice. I assume they were able to buy either more wheat or feed grains or put it into weapons to use in Afghanistan. So maybe we've actually contributed to their success.

The CHAIRMAN. So you would treat the Soviet Union as a preferred customer compared to other countries?

Senator DOLE. Not a preferred customer. But I think we do have a somewhat normal dialog with the Soviet Union. There are some who suggest—and I was one of those—that we ought to take a look at the SALT agreements. We're not in conflict with the Soviet Union. But I think the point was that the President's reaction was wrong. He wanted to lower farm prices for the consumers' benefits, so this was a good opportunity. Afghanistan provided a good excuse for that.

The CHAIRMAN. Now, Cuba could be a billion dollar a year market for U.S. agricultural commodities, about half as large as the Soviet Union was last year. It's right at our doorstep. Yet we embargo sales to Cuba since 1960. I approve of that.

But would you support legislation to authorize the sale of grain to Cuba in view of the fact that you would favor authorizing the sale of grain to the Soviet Union?

Senator DOLE. Not at this time. There could come a time. I don't believe we've ever closed the door on Cuba. If we have free elections and new leadership in Cuba and they're going to pay cash, you know——

The CHAIRMAN. There are no free elections in the Soviet Union. One of our principal problems with Cuba, certainly, is that they're dominated by the Soviet Union, controlled by the Soviet Union, an instrument of the Soviet Union's foreign policy. That's our argument with Cuba, is it not?

Senator DOLE. Right. But we can talk about Cuba, Vietnam, and Campuchea and Iran. The question is, the embargo we're talking about that we want to impose on the Soviet Union. We can raise all these straw men around to see why we shouldn't do this if we don't do this. I don't know how much—if the Cubans—how much wheat they would want to buy or feed grains; not a billion dollars worth.

But in any event, our resolution is specific because the President's action was specific. If he wants to lift the embargo on the other countries or if he wants to come to Congress and suggest that, then we'll consider that. But we're here to address a specific wrong, violating the rights of the American farmers, suggesting they're not patriotic, and some of those who are in the administration now were the sharpest critics before the embargo. And I can go back and place some of these statements they made.

But the point is we're now in 1980. The farmers have suffered. I'm not certain you can hurt them much more. I think the administration has done about all they can to hurt the American farmer and we'll have to live with it.

U.S. COMPANIES SELL FOREIGN GRAIN TO SOVIETS

The CHAIRMAN. Senator Boschwitz, I understand that the Administration has told the big grain traders that they can export grain to Russia as long as it isn't U.S. grain. Why should we allow U.S. companies to sell foreign grain to the Russians when they don't sell them American grain?

Senator BOSCHWITZ. As I stated——

The CHAIRMAN. Does that make any sense?

Senator BOSCHWITZ. The large grain companies are located in many countries and really can't be stopped from selling foreign grain. I think that what they were talking about, selling foreign grain to Russia—again, because grain is a fungible commodity, it can't be stopped.

One of my objections to the embargo initially was just that: You can't embargo a commodity, almost by definition. If you want to embargo the other items——

The CHAIRMAN. But my point, Senator Boschwitz, is why should we let U.S. companies get away with selling foreign grain? Why shouldn't they bear the burden? The farmers bear a big burden. Why shouldn't the U.S. grain traders bear it?

Senator BOSCHWITZ. Just as the farmers should not bear the burden because it was a useless act, so the American grain compa-

nies located in other countries should not have to be stopped. If the American companies don't do the trading, Mr. Chairman, you know that somebody else will do it anyway. Again, it's a fungible commodity.

The CHAIRMAN. Maybe they would, maybe they wouldn't.

Senator BOSCHWITZ. If it were a matter of high technology that was not produced by 125 or 130 countries of the world, but by 6 or 8, then perhaps an effective embargo could be imposed. That's why I agreed with the President's embargo on high technology. Unfortunately, we have great problems even there.

The CHAIRMAN. The effect of this is to let the grain companies off the hook while the farmers are on the hook.

Senator BOSCHWITZ. We're not letting the grain companies off the hook, Senator.

Senator DOLE. They did let the grain companies off the hook seven weeks ago.

The CHAIRMAN. Is that right, Senator Dole?

Senator DOLE. They have more muscle than farmers.

Senator BOSCHWITZ. They have more muscle than farmers, and it's also a recognition of the fact——

The CHAIRMAN. I enjoy very much agreeing with Senator Dole. There's nobody with whom I'd rather agree when I can.

Senator BOSCHWITZ. As a matter of fact, the administration is just responding to the fact that they couldn't control the international grain markets. I hope you'll ask the Secretary, why don't we just raise the price to the Russians? I'm sure that he will respond: We can't, on a commodity, just raise the price. We can't raise it for one particular customer. My goodness, this is produced in 125 countries.

The CHAIRMAN. I can't resist the old quotation attributed to Lenin. He probably never said it——

Senator BOSCHWITZ. That we're going to sell them the rope?

The CHAIRMAN. That's right. When the Communists are ready to hang the capitalists, the capitalists will sell them the rope. Just raise the price to them, sell them as much as they want, and you can probably make a profit off of it.

The fact is they're murdering people in Afghanistan. It's an out and out outrageous act of aggression that we should protest any way we can. This has a tangible effect. It may be modest, but it's tangible.

OTHER WAYS OF PROTESTING

Senator BOSCHWITZ. Let me suggest, then, some other ways of protesting, rather than protesting in a manner that has not served a real purpose, in my judgment, and that has not really impressed the Russians. This administration slowed down the production of the Cruise missile. It slowed down the production of the Trident submarine and the C–4 missile. They shut down the only ICBM production line that we had. They unilaterally stopped the production of the B–1 bomber, without getting anything in exchange for it.

It really was maddening. You know, I'm an old horse trader, Mr. Chairman. I don't like to give anything away for nothing. And the administration in this case did. They cut the naval shipbuilding program by 50 percent, slowed down production of the MX missile,

even though we hadn't put an ICBM missile in the ground for 17 years.

If you want to impress the Russians, you don't cut off their wheat imports, which represents only one or 2 percent of their needs. But you do something that responds to a military invasion in a manner that they will properly understand. That was my principal objection: Hold down their technology.

We had, as you know, great technological advantages in oil and other areas that they need very badly, and there are the ways that we can hurt them. We can find better ways, Mr. Chairman, and not ways that will hurt all of rural America.

The CHAIRMAN. I don't agree with that, but I'll come back to it a little later. My time is up.

Senator Garn.

Senator GARN. Thank you, Mr. Chairman.

Senator Dole, Senator Boschwitz, as I said yesterday, at the opening of these hearings, I initially favored the grain embargo. Bob, I received the same call as you did from someone in the White House before it was announced, asking if I would support the President. I said yes, yes, yes, all the way down the line.

But in that phone conversation I qualified it, and I said, are you going to work on making sure that U.S. grain is not going to be replaced by other sources? I supported the embargo on the basis that it would deny the Soviet Union access to the grain. Oh, yes, yes, the White House said we have Australia and Canada lined up to support us. At that time I told them a boycott will not be effective any more than an OPEC boycott, if any of the other grain exporting countries go ahead and sell at higher prices rather than embargo. That is the strength of OPEC—they basically stick together. And in the same sense, a grain embargo could only be effective, if the grain exporting countries stick together. I was assured by the White House that this would be the case.

So my support was on the basis that the embargo would be effective. The reason that I do not support it now has nothing to do with politics. I think there is ample evidence that the embargo has not been effective, that is, it has not hurt the Soviet Union. But I see no sense in cutting off our nose to spite our face.

The chairman can challenge our patriotism and whether we are aghast or upset——

The CHAIRMAN. I've never done that, Senator Garn.

Senator GARN. Well, indirectly you have. You and I know each other.

You are sitting here today saying why, aren't we outraged? Well, some of us so-called hawks, as we are constantly being accused of being when we want more defense, when we fight SALT II, and when we are on the other side of the grain embargo argument, are outraged. No one should question how we feel about what the Soviets have done or about an ineffective grain embargo, or about a gutless U.S. foreign policy that responds with a meaningless, cosmetic draft registration, that I am sure has just scared the hell out of the Soviets.

They must laugh at us, Mr. Chairman. They must laugh and giggle over there all the time at our inadequate, weak responses. So some of us, who started out supporting the President because we

wanted to do something about the Soviet invasion of Afghanistan, are now removing that support because of this ineffectiveness.

TOUGH ECONOMIC SANCTIONS

Now, I was not one who expected the Soviets to remove themselves from Afghanistan. But until we start applying tough economic sanctions and stick by them, making sure that they are effective, we will not really hurt the Soviet Union economically, as we have the power to do if we would really want to. The one method would be through a complete embargo of high technology items.

I am going to have some questions for Commerce today on the technology transfer issue.

We haven't really hurt them as much as we could. We can go over the transshipments from the Eastern Soviet bloc nations. We can go over Kama River again. The U.S. simply has not had a forceful, continuing, consistent response. I disagree, unfortunately, with my colleague from Minnesota. What we have is a double standard when we say: Hell, we are going to have an embargo, we are going to keep it going, but we are going to permit large American grain companies to sell grain from nonAmerican sources. In other words we are going to partially relax the grain embargo.

Well, that is a real double standard. Hurt the American farmer, but let our big grain sellers go right ahead and sell anything they can.

Well, Utah is not a big agricultural State at all. We sell practically nothing overseas. If it were copper and some other things, that might be a different story. But we don't. So my interest is not parochial at all.

I changed my opinion simply because the embargo is ineffective. In response to the chairman's question, I think we ought to be a lot tougher because of Afghanistan. It is sort of like yelling at the referee: You don't get him to change his decision on this one, but maybe it sensitizes him to the next one. Not only this administration, but several, have let the Soviet Union get away with naked aggression. This time we are not going to have their attention. I don't think anybody expected that this administration would get them to back out of Afghanistan with these measures. I certainly did not. But I don't think we're sensitizing the Soviet Union to the next crisis. Where will the next country be that they are going to rip off, kill, and maim?

I do not think any Member of the U.S. Senate is not aghast or upset with the situation. I think it is time we either have a grain embargo or not. We ought to either make it tough and effective, so it hurts the Soviet Union or we ought to abandon it. We have the economic power, with our allies, to hurt the Soviets if we have enough leadership to get the allies to cooperate.

I realize I am using my questioning time to make a speech and——

Senator DOLE. It's a good speech. [Laughter.]

Senator GARN. I will stop at this point and allow my other colleagues to proceed.

Senator BOSCHWITZ. Let me comment, if I may, about the international grain companies, being politically sensitive, recognize

what's involved there. But why penalize—now that we've penalized the farmers we should penalize other Americans. We simply can't stop the interchange of grain commodities in world trade, and why we should allow American companies located overseas, why we should penalize them in addition to everybody else——

Senator GARN. My point really was simply either one way or the other, that we ought to have an embargo or we should not have an embargo. You are right, we should not just penalize one side and not another part of the American economy. Let's have it one way or the other, not halfway in between, not cosmetic and superficial. Let's have a tough, enforceable embargo. Put the screws on our allies so they will cooperate. We have got some economic means with them, too.

USE FOREIGN AID AS A TOOL

I happen to serve as ranking minority member on the Foreign Aid Appropriations Subcommittee. You know, we might start using foreign aid as a tool with some of our so-called good friends and say, "hey, fellows, if you are not willing to help us with an Olympic boycott, a grain embargo, maybe we are not going to be so generous any more." But we do not use that tool either, and we continue to spread billions of dollars around this world in foreign aid without asking for something in return.

I agree with you. I am a horse trader, too. Let's get something in return for what we give. I think it is time we started to be tougher. Again, it is not just this administration. I think Congress and several administrations have had an extremely weak attitude. I would much rather be respected in this world than liked. I am not looking for popularity. I really do not care what the Soviet Union and some other countries think of us. I would prefer to get back to a point of respect, when they think we have a medium-sized stick, if not a big one.

The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. I would just like to reiterate what I said yesterday, that I do think it's a question of whether this particular grain embargo has been effective. And this is in question at this point. I was one who supported it when the President first announced it, although I have never believed that an embargo is either an effective method of foreign policy or certainly sound economic policy. But once the President announced it, I thought it was important to stand by it.

Second, I recognized at that point that the Soviet Union certainly wasn't going to turn around, if we did rescind it, and say, wonderful, we will buy the grain. So the question is now: Has it worked? Has it been an effective tool against the Soviet Union as a reflection of our foreign policy. And I think that we would all have to question whether it has been. Certainly I think it's been well stated by both Senator Dole and Senator Boschwitz that it has not, and that's what we're trying to analyze.

I would agree that there is a question of trying to take some of the Presiden't responsibility away to determine foreign policy. But on the other hand, our role here is to question policy when it is not working well and try and be responsible in analyzing the policy and its effectiveness.

So I am certainly in support of the positions taken by the witnesses at this point. I know there are further questions that need to be asked of the witnesses.

Senator DOLE. Mr. Chairman, I appreciate Senator Kassebaum, because as I indicated there was some support of the embargo at the outset. We found ourselves divided on this question in the State of Kansas, which is a large wheat-producing State. And I don't think Nancy, Mrs. Kassebaum, changed her mind easily.

I think there was an indication throughout our State that it hadn't been effective. I think the question that ought to be answered by the administration is how much higher would prices be if there had been no embargo, and how much more would the exports, which are up by $39 billion, maybe they'd be up by $42 million. What about the whole alinement now of the grain trade in the world? I cited the example, I think, of a mistake in the Nixon administration, where we lost the soybean market to Brazil. And I wonder if we're going to lose other markets now to Argentina and other countries.

And I think you know there's a lot of talk, I assume, on this committee about the Golden Fleece award. But I certainly think the USDA deserves it. I think you ought to have a special ceremony. They ought to get the Golden Fleece award. They fleeced the taxpayers, they fleeced the farmers, and they fattened up the Soviets.

The CHAIRMAN. There are lots of candidates for that award, I must say.

Senator DOLE. Senator Garn mentioned one last night on McNeill-Lehrer. Everybody had a candidate.

The CHAIRMAN. I don't agree with Senator Garn's selection.

Senator BOSCHWITZ. If I might comment for a moment as I listen to this talk of the Department of Agriculture and some others about the fact that the embargo hasn't hurt prices at all, as a matter of fact, you'd almost think if you listen to them that it has a positive effect on them. Perhaps we should have one every year.

I really feel rather strongly that when you're dealing with a commodity as I have most of my business life, when you take away 2 percent and 3 percent of the market historically at least with the commodities that I've been involved with, the price would always fluctuate by far more than that.

It would fluctuate by 18, 20, sometimes more percent. That's what clearly happened here. And when you play around with demand in a commodity by just a few points, you affect the price in the market situation by many points, and I'm sure that the Secretary of Agriculture would agree that's why you can't control the worldwide price and why you can't single out one customer from another and charge one more. And I agree with that, too.

The CHAIRMAN. Senator Tower.

Senator TOWER. I'm just delighted to hear the chairman express his concern about the humiliation of the President, and his concern about a congressional action that would proscribe the President in the conduct of foreign policy.

That's what we've been doing around here for years. The War Powers Act is symptomatic of it. I trust now that the distinguished Senator from Wisconsin would join me in legislation to repeal the War Powers Act.

That would strengthen the hand of the President enormously and would constitute something in the way of a dehumiliating process.

I wonder how many times the distinguished Senator from Wisconsin has supported legislation in this body that has tied the hands of the President in the conduct of foreign policy, such as the Tunney amendment, which precluded the proffer of any assistance to the pro-Western elements in Angola, which ultimately resulted in virtually the loss of Africa to Soviet influence.

So, when we talk about the humiliation of the President, let's review the whole aspect of congressional inhibitions on Presidential formulation and implementation of foreign policy.

And the argument of the Senator from Wisconsin rings a little hollow and I think he's been one of the principal advocates of reducing defense spending.

I point out the fact that the administration, taking this bold action toward the Soviet Union did it in this context, then came January and recommended a lower defense budget than they had recommended prior to the invasion of Afghanistan.

Is that convincing the Russians we mean business? And in March, they came in with a still lower budget request. Does the Senator from Wisconsin think that if we really mean business, we ought to raise defense spending in the face of the Afghanistan crisis, rather than simply impose a grain embargo of very, very dubious value indeed?

What we need to signal to the Soviets is that they cannot pursue their global objectives, their international aggrandizement unchallenged by the United States by something more than a grain embargo that perhaps causes their people a little discomfort.

I imagine that this is not reflected in the menus and in the meals served to the boys in the Kremlin. They don't care about the discomfort of their general citizen because that have absolute control over that citizen.

So let's get this thing in the proper perspective. We asked the farmers to make a sacrifice, but are we prepared to sacrifice in terms of domestic programs to increase national defense? We are not.

Why? Because these domestic programs affect largely people in major population centers, in fact, more voters.

In fact, the President, I think, is dubious of his prospects of carrying the farmbelt States in this election year, so it was good to single them out for a political gesture.

This is indeed, this embargo, the politics of gesture. And that's all it is and we should recognize it as such.

If the President were to couple that embargo with a sharp call for an increase in defense spending, one that would provide us a credible deterrent to Soviet military adventurism throughout the world, I would say, let's go. I'd be all with him.

Regardless of the consequences to the farmers of this country, and I think the farmers would accept that and would understand.

But, as has been pointed out, a commodity embargo of this sort, if you're not going to get Canada, Australia, and Argentina to go along, is not going to really make a significant dent, is not going to hurt anybody.

You talk about Cuba or Vietnam, that's where a food embargo can hurt, yes, because those people are people who are in abject circumstances economically, as it is.

Such an embargo might seriously impact on their ability to feed themselves.

It does not impact the Soviet Union that seriously. All that does is take away an established market.

Now, as far as food prices to consumers, and I'm sure there is much wisdom in what was said by the Senator from Kansas, this might result in lowering food prices to the people of this country.

Well, in fact, there is not always a direct relationship between the reduction of prices to farmers and the price of groceries to the consumer.

As a matter of fact, we have seen times when the price to the farmer has actually come down and the price to the consumer has gone up. Further there are many other factors that have reduced the price of wheat as much as 50 cents a bushel.

How much of that, really, is going to be reflected in the price of a loaf of bread? I wonder if the Senator from Kansas would comment on what the domestic impact on food prices might be as a result of this embargo?

Is it really going to have a significant impact in terms of reducing the cost of living in this country?

Senator DOLE. I haven't found anybody complaining about food prices dropping. I found a number of consumers complaining about retail food prices increasing at the same time farm prices were dropping.

Now farm prices are coming up a bit because of the drought. You pump $2 or $3 billion into a program, as the administration did, then it will have some impact.

But the Senator from Texas is right. Not only this administration, but other administrations, I think, do concern themselves about food prices and probably should.

But I would hope there would be some emphasis on farm prices. I remember a farmer in my State saying one day, "Bob, if you don't eat, don't worry about my problem."

It was about an hour past lunch hour and I thought about that. And I thought about that for a long time, you know, the farmers, and I won't make the speech, everybody's appeared to make it.

But we still have the best food bargain in the world in this country. But the farmers, and some people say everybody cries about the farmers, the only time they're mentioned on network news is every time the Consumer Price Index goes up, they get about 30 seconds on the network, saying, well, the farmers' prices must be going up.

They don't mention about their costs going up. It's always their prices are going up. It costs $200 to start your tractor in the morning, just for fuel. It's triple, quadruple.

I think there needs to be a recognition of farm costs, not just prices. Farmers aren't getting enough price, they're getting plenty of costs.

And I would say this in response to the Senator, the embargo, as far as I understand it, and the registration and the Olympics, the only actions the administration can point to that would indicate any getting tough with Russia, if that's getting tough with the Soviet Union, then we're really in sad shape. If that's all we can point to in this administration.

Senator TOWER. Reduce defense spending but boycott the Olympics.

Senator DOLE. We had to reduce defense spending to take care of this $3 billion the USDA needed to try to ease the burden for farmers. And that's probably where that came from.

But I do want to say before I leave that I certainly do have admiration for Secretary Bergland. I wouldn't want anyone to think that I defend him on a daily basis. I think he did defend me once. [Laughter.]

I think he has—does a great job with what he has to work with. [Laughter.]

The CHAIRMAN. Senator Lugar.

Senator LUGAR. Mr. Chairman, I appreciate, as we all do, the testimony of our colleagues today and yesterday because this has offered an excellent forum long for a subject that should have had a forum before it was instituted.

One of the shocking things about this subject is that it was a fait accompli before we came back into session and we were left to pick up the pieces.

BREACH OF TRUST

I hope that will never occur again. I think it was a breach of trust, to say the least, on the part of the administration.

We were left, as all of us are now expressing, with the fact that we had to take a look at American foreign policy, and defense policy, which was in disrepair and gravely weakened, at a time of crisis.

I'll not reiterate Senator Boschwitz words, but they're quite correct. That essentially this administration tried to get out of harm's way for 3 years, until the President rediscovered the Soviet menace in Afghanistan.

And it was too late at that point, to redirect our defense and our foreign policy. The President, therefore, reached up into the cupboard and found it almost bare with regard to things that might be done.

He sees, however, as we've already heard, the Olympic boycott and the grain embargo, and the high technology goods situation and draft registration.

That isn't a foreign policy and it hasn't meant a whole lot in any event.

So now we're now left to pick up the pieces in the agricultural situation. And it seems to me that we are likely to overlook, a major factor that is going to have something to do with agriculture and foreign policy, and world defense in the years to come.

The per capita amount of production of basic commodities in this world—corn, soybeans, wheat—has been in decline since the mid-

seventies. This is even though in some years in the aggregate, there has been more wheat produced worldwide. But when you divide that amount by the total number of people in the world, that amount has been in decline.

This has been the awesome factor with regard to food and foreign policy, and the reason, I suppose, in some theoretical circumstances in the future, that not only would an embargo work, it could be absolutely devastating.

Our country could be in the situation of allocating the world food supplies and determining who eats and who does not. That's an awesome responsibility.

For the moment, however, in order to be in that position, we're going to have to strengthen American agriculture. And American agriculture is not strengthened by what is almost an off-the-wall boycott suggestion in the dead of winter with Congress out of session.

Whether there was a minor effectiveness or not, the embargo's impact on American agriculture has been devastating in the short run, as far as its effect on farmer's confidence and any further increase in production.

It just seems to me that we ought to underline the politics of this situation. Clearly, American agriculture with now only 3 or 4 million farmers, located in the infrastructure of small town America, does not have the political clout of other parts of our society.

But whenever anyone looks at something that might be embargoed, American agriculture seems to be a very good target, simply because there are relatively few farm votes.

That's the long and short of the matter.

As Senator Tower has pointed out, the tough things that needed to be done—spending on defense, spending on a viable foreign policy—were politically not very expedient for this President and this administration to do. It's easier to pick on 4 million farmers.

Furthermore, I simply resent the entire implication of the administration challenging the patriotism of the American farmer. It has had a devastating effect on the morale and growth of American agriculture.

My own feeling is that we need to take a long look at what is best for this country. Probably the best course is the extraction of Soviet gold, foreign exchange, and extraction at a heavy price. I'm not certain that our foreign policy would not be best served by our selling grain to the Soviet Union for as much as we can get for it, and to integrate their economy with our own, to such a heavy degree that they have a reliance that is disturbing, as far as their consumer economy is concerned.

It's an arguable point, but I think that clearly as good a point as can be made on behalf of the embargo.

Finally, this reiterates something that has to be said. These on-again, off-again embargo situations are playing havoc with regard to any reliance our friends and foes have on this country.

We've been back and forth with the Japanese embargo on the soybeans thing. But it was a tragic act, in a different administration, a Republican administration, in this case, in the same way that this particular embargo was all wrong.

I sympathize with the Department of Agriculture and Secretary Bergland has spoken eloquently for himself, on behalf of the administration, trying to defend the whole thing.

But I really can't believe anybody who has been in agricultural economics very long, and involved with farming in America, could see any merit whatsoever in this, except as a last-ditch defense by the President coupled with the suggestion that we had nothing else to throw in.

And as an act of patriotism, we at least did this to show we were going to do something. Wrong as it was economically, and wrong as it was for the future.

Let me just simply ask of my colleague, Senator Dole——

Senator DOLE. Could I interrupt just a second?

Before Senator Tower left, I wanted to present him a Big Mac, since he's properly dubbed this program.

It's still warm, too, John, you can eat it right away. [Laughter.]

Senator BOSCHWITZ. With or without onions? [Laughter.]

Senator LUGAR. I'd be happy to yield.

Senator DOLE. He was about to escape.

Senator LUGAR. As a matter of fact, I was just going to ask for a comment which you made. You might want to say something more.

The CHAIRMAN. If the Senator would yield, I might point out that we might inflict more real pain on the Russians if we made them eat one of those Big Macs. [Laughter.]

Senator DOLE. We have a lot of them in Kansas. I think it's a very good product. [Laughter.]

Senator LUGAR. Let me ask Senator Dole and then Senator Boschwitz your judgment about this long-term proposition that the strength of American agriculture is in itself one of the greatest strategic strengths that we have.

In other words, our ability to influence foreign policy in the long run may come from the growth of production in this respect.

What are the sorts of things that we ought to be doing to strengthen that morale and that production?

Senator DOLE. If we look at the balance of payments, or most anything else, I think we understand, I'm certain Secretary Bergland could properly articulate this.

The strength of what agriculture means as far as our foreign policy is concerned, our economic policy is concerned, it is a cornerstone. We can all find shades of difference within the administration, but I agree with the Senator from Indiana, who, I think, may suggest later on we ought to take a broader look at this problem.

Is this part of our foreign policy? Maybe it's part of some master plan. Maybe it's a multinational plan that this administration has in mind.

Maybe the Foreign Affairs Formulations Committee ought to take a look at it as well. It's easy for us in the farm States to say, well, we don't like it because it hurts people who may vote in Kansas. That's not the premise.

If that's the premise, then we shouldn't be here. But it has an impact on the most important sector of America, one of the most important sectors of the American economy, agriculture.

We just can't keep slapping them in the face and expect them to produce. We're going to have realignments, we've had in the soy-

best copy available

bean trade, we're going to have further realignments in the grain trade, we're going have a lot of farmers just give up in despair.

FARM ECONOMY OUR GREATEST STRENGTH

Senator BOSCHWITZ. If I may comment for a moment, Senator Lugar, I agree very much with you that our very bountiful farm economy is going to be, perhaps, our greatest strength.

Our real estate is put in the right place in this world, where we have adequate grain, adequate topsoil, and the ability to produce crops, and not to be so affected by the vagaries of the climate, as other countries are.

No question about the fact that it's going to be the strongest element of our economy. And I believe it is now already the strongest aspect of our export trade.

One out of three acres today that are planted in the United States are planted for export. That probably will continue to rise.

As I look at the entire farm economy, we're just coming to a point where the free market system was beginning to work to encourage production, to also encourage soil conservation, and some other very needed items in the area of agriculture.

Once again, the Government becomes involved in the agricultural marketplace and does not allow the free market system to work.

I think when we do allow farmers to produce and farmers to do in this world what I think they can do, our whole situation is going to be much stronger.

And OPEC, eventually, will not have the same strength that we will in that regard.

Senator LUGAR. Thank you, Mr. Chairman.

INCREASED DEFENSE SPENDING

The CHAIRMAN. I was just going to ask a few questions. I apologize, because we do have a distinguished panel following our two distinguished colleagues, but I must call attention to several assertions which I don't think should go unchallenged. One is that we haven't increased defense spending. The fact is we've greatly increased defense spending between 1980 and 1981. In the fiscal year that begins October 1 defense spending is to be increased in obligational authority by 19 percent, a colossal increase.

In real terms, that's 8.1 percent. Outlays will increase by 15 percent, in real terms by 4.6. This is at a time when all the rest of Government is being held down to at best an increase that parallels inflation. And in many cases, as we know, into an actual decrease.

There's no evidence, none, that we have not increased defense spending. Now that was before Afghanistan. Since then, of course, we have to expect that the administration will respond for the 1982 budget, and the 1983 budget, these things take time to put together, if you're going to do them in a reasonable, sensible, and logical way. But there is no evidence, none that I know of, that we have not increased defense spending. The question is, how much we've increased it.

In the second place, I'd liked to ask Senator Dole and Senator Boschwitz to respond to the statement I made when I opened these

hearings this morning, that the best estimates of the U.S. Department of Agriculture at the time the embargo was imposed were that the Russians would be able to replace all but 9 million of the 17 tons of embargoed U.S. grade, and that feed grain consumption would drop 5 percent—after all, 5 percent is a substantial amount—and that Soviet meat consumption would be lowered by 4 percent.

The information provided to the committee for this hearing by the best intelligence sources we could get is that the Russians are suffering the cost the President intended for them to bear. There are confirmed reports that the strikes in May at the Togliatti and Gorky automobile plants were due to food shortages. There are press reports that the strikes in Poland today, going on right now, are the result of food shortages and the inavailability of an adequate diet.

This is economic force, that is the one kind of tangible, specific action that we can take, that does get results in the Soviet Union.

Now what evidence leads you to believe that the Russians aren't paying a concrete price?

Senator DOLE. I hope we're not saying that all the Polish troubles are the result of the grain embargo. That would be a new dimension.

The CHAIRMAN. I didn't say that.

Senator DOLE. You suggested it.

The CHAIRMAN. I suggested it was contributing to it.

Senator DOLE. I don't think it was contributing to it. It was a bad 1979 crop. That was what's contributing to it.

The CHAIRMAN. This made it worse.

Senator DOLE. I think a matter of clarification with reference to the case of Senator Stevenson. It occurs to me that we did amend the Export Administration Act, and we do provide for our congressional veto of the President's action, if it's taken for foreign policy reasons. But the President, of course, uses national security. Now if anybody can find any national security involved in this embargo, then that argument might hold up, but I suggest that those statements are probably overstated. I read some comments, early comments, that the Secretary and the President told a group of Congressmen it was going to reduce their meat supply by 20 percent. There are a lot of statements made and the USDA's forecasts have been changed almost on a monthly basis.

The CHAIRMAN. Senator Dole, I want to see if we can agree on a figure though. Would you dispute the 9-million-ton deprivation to the Soviet economy?

Senator DOLE. Yes, I would dispute it.

The CHAIRMAN. What's your source?

Senator DOLE. Our source is knowing what the leakage may be. And we think it ought to be about 6 million tons, plus allowance for leakage, grain that purchased overseas and shipped to the Soviets. We think it's much less. I don't think we'll ever know how much.

The CHAIRMAN. Our intelligence sources tell us that it's 6 million already as of last July, that by the end of September it would be 9 million.

Senator DOLE. I haven't read those reports. Maybe if I had access to those, and I assume I have, I might agree. But I'll be glad to furnish that for the committee.

The CHAIRMAN. Do you contradict their judgment that the strikes in May at the Togliatti and Gorky automobile plants were due to food shortages?

Senator DOLE. If they're suggesting they're due to the embargo, yes, I contradict that. If they're due to food shortages, they have food shortages. We haven't contributed much to the food shortage.

The CHAIRMAN. Don't you believe that a 10-percent drop in the feed grain or a 4- to 5-percent drop altogether would contribute to that significantly?

Senator DOLE. No. You know, they've had food shortages in Russia as long as I can remember, in any of the Communist countries, because of their system, their 5-year agriculture plans.

The CHAIRMAN. They've been moving up their meat consumption regularly between 1975 and 1976, 1977 and 1978, it went up. Now it's back to 1975.

Senator DOLE. I'll read their own USDA reports, saying that in 1980 it's slightly below the 15.5 million tons produced in 1979. That doesn't indicate slightly below. I don't know how much that is. But to even suggest that somehow the strikes or the riots or whatever, could be credited to President Carter's courageous embargo would be an overstatement. I wouldn't agree with that. I would agree there might be food shortages, but not because of the embargo.

The CHAIRMAN. I don't get that logic at all. If we deprive the Soviet Union of feed grain, so they can't feed their cattle, so they have to slaughter their cattle in January and February and then meat consumption falls later on in the year, it seems to me that this is a contributing factor.

Senator DOLE. Well, in July, the 1980 July update on the impact of the grain embargo on the Soviet Union, the USDA indicated that the Soviet per capita meat consumption in 1980 is expected to return to the 1975 level of 57 kilograms, a fall when viewed in light of the Soviet Union's announced goal of 63 kilograms for 1980. But USDA fails to mention that from 1975 to 1979, actual Soviet per capita meat consumption has never been greater than 58 kilograms. In 1975 it was 57.

The CHAIRMAN. You're talking about consumption; I'm talking about production. Production is down, because of the amount of feed grains that they're not getting. They have to import their meat.

Senator DOLE. I assume there is going to be some correlation between production and consumption.

The CHAIRMAN. I'm just pointing out why there isn't that correlation. Let me ask Senator Boschwitz. I want to address to you a constructive question.

Senator BOSCHWITZ. Mr. Chairman, may I just add a comment on that too, because these sources, I believe the Agricultural Department has said that there's a 6 million-ton shortfall, not a 9 million-ton shortfall.

The CHAIRMAN. As of now, I'm talking about what the total shortfall is going to be for the year.

Senator BOSCHWITZ. You think that the Russians' position is going to get worse, that they will not be able to cover their losses?

The CHAIRMAN. I think there's every indication that the same kind of situation that's maintained so far is liable to be continued. Sure, that's logical.

Senator BOSCHWITZ. I think it's not logical, Mr. Chairman, that the Russians, given more time——

WORLDWIDE SHORTAGE OF WHEAT

The CHAIRMAN. There's a worldwide shortage of production of wheat now, we know that.

Senator BOSCHWITZ. I understand, but normally, the rich and the powerful are not those who suffer, Mr. Chairman, as you well know, and given a matter of time and give a competitive position, there's no question in my mind that the Russians will be able to improve their position. I understand that the shortfall is 6 million tons. The sources I have from Minnesota say the leakage that Senator Dole speaks about as 3 million tons, that can be seen in the totality of the Soviet production of meat of 228 or 230 million tons, which is not the 10 percent that you mentioned, but between 1⅓ and 2 percent.

The CHAIRMAN. I'm almost through. Let me just ask one question. You both might want to comment on it.

Senator BOSCHWITZ. Do we have a vote?

The CHAIRMAN. No, that's another roll call.

The administration has taken a number of steps to offset the effect of the embargo for the American farmer. You said they haven't worked. I would like to know why not. What can be done about rescinding the embargo to offset effectively its impact on the farmer? What could we do constructively to help the farmer in these circumstances, that we have not done, the administration has not done?

Senator DOLE. They could rescind the embargo.

The CHAIRMAN. What else? Supposing we don't rescind the embargo?

Senator DOLE. The administration did take action a couple of weeks ago after the Senate passed an amendment on July 25 at 11:30. We had a hurry-up emergency farm conference called by the White House for the following Monday, and they responded to Senate action by increasing loan rates for corn, wheat, and soybeans. That will help, but I must say, we waited for 4 months for that to happen. And it would have happened.

The CHAIRMAN. That's the second time they did that.

Senator DOLE. They didn't do it much. We had to fight over a nickel or a penny one time in the conference. Homer Moyer is a very good fellow too. I like all these fellows. I just may help them in January to find work. [Laughter.]

The CHAIRMAN. Let me just list very quickly what the administration has done. No. 1, they've bought 4 million tons of wheat for food security reserve. In other words, they took off the market completely the effect of the embargo.

Senator DOLE. It wasn't a very good administration program.

The CHAIRMAN. Second, they raised the loan rate twice. Third, they increased loans under the regular programs and increased the

farmer-held grain reserves. Fourth, they increased funds for exports.

Senator DOLE. That cost a lot of money to taxpayers.

Senator BOSCHWITZ. Those are things which were initiated by the farmers, by and large, Mr. Chairman. The farmer-held grain reserves, the higher loan rate that the Senator from Kansas was just talking about.

The CHAIRMAN. You know how these things work. They all take credit for them. The administration asks for them.

Senator DOLE. They opposed.

Senator BOSCHWITZ. Absolutely.

The CHAIRMAN. They didn't oppose the purchase of 4 million tons of wheat.

Senator DOLE. I think to their credit—I think we can divide it up a little. They can get credit for that, and we'll take credit for the rest of it. [Laughter.]

The CHAIRMAN. This meeting hasn't been at all political. [Laughter.]

Senator DOLE. I want to thank the Chairman. I have never been before this committee before, and it's a very spirited committee, I must say. All the members seem very relaxed and properly aggressive. I think that makes for a good hearing.

The CHAIRMAN. Very good. Senator Garn has a concluding comment. I want to say that you've acquitted yourself extremely well in a bad cause. [Laughter.]

Senator GARN. Mr. Chairman, before we leave, I simply want to say that the figures you cited on the military budgets, I think you have to look at purchasing power, and I can't leave it unchallenged to say that we have a colossal increase in defense spending. We have an increase in dollars, in purchasing power, due to the inflation rate. The real increase is almost nonexistent. We'll be lucky if we get 1 or 2 percent. We also have a 5-year shipbuilding program in the administration that will produce a net cost of combat ships at the end of 5 years, a net loss of tactical aircraft. I also serve on the Defense Appropriations Subcommittee.

In terms of what that $160 billion will buy, it is a decreasing amount. I think that is the real tell-tale thing we have to look at in defense spending. It is not the dollars that are appropriated. That's true of all Government expenditures, but what it will buy, as far as the estimates on the shortfall, I don't doubt that the estimates you have are correct. It's 6 million tons at this point, and eventually it may be 9 million. But you've got to subtract from that.

U.S. GRAIN LEAKED TO SOVIETS

I have figures from the Dreyfus Co.'s Rotterdam office. It estimates that 4 to 5 million metric tons of U.S. grain were leaked to the Soviet Union in transshipments from third countries. The American Soybean Association estimates that the Soviets were able to obtain almost 1 million metric tons of meal made from U.S. soybeans. That 850,000 metric tons of wheat flour milled in Europe have been sold to the Soviet Union in 1980, and that's equivalent to 1.2 million metric tons of raw wheat. So you start from 9 million, and you start subtracting all this leakage. I think that's the point that should be made, not that your figures are wrong, but I don't

think those DIA estimates include all the leakage that occurs, and what's important is the net figure. And that can end up way down, as low as 2 million tons.

The CHAIRMAN. May I say to my good friend from Utah, it's my understanding that the intelligence figures do take the leakage estimates into account. They may or may not be accurate in their estimate of the leakages, but they do take that into account.

Our next witnesses are a panel, an administration panel, consisting of the Secretary of Agriculture, Bob Bergland, Under Secretary for Economic Affairs, Department of State, Richard Cooper, and the General Counsel of the Department of Commerce, Homer Moyer.

We're delighted to have you distinguished gentlemen before us. Gentleman, I apologize for the late hour. We have colleagues down on the floor.

Secretary Bergland, would you like to lead off. I think it might be better if we could make the statements as concise as possible, and whatever you omit from the prepared statement will be printed in full in the record.

STATEMENTS OF BOB BERGLAND, SECRETARY, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DALE HATHAWAY, UNDER SECRETARY AND HOWARD HJORT, DIRECTOR OF BUDGET POLICY ANALYSIS AND PLANNING; RICHARD N. COOPER, UNDER SECRETARY FOR ECONOMIC AFFAIRS DEPARTMENT OF STATE, AND HOMER E. MOYER, JR., GENERAL COUNSEL, DEPARTMENT OF COMMERCE

Secretary BERGLAND. Thank you very much, Mr. Chairman.

Members of the committee, I would like to introduce my colleagues from the Department of Agriculture. On my left, Under Secretary Dale Hathaway, and on my right, Howard Hjort, the Director of Economics, Policy Analysis and Budget.

Mr. Chairman, members of the committee, it is, of course, a pleasure to be here today to discuss the series of measures the administration is taking in response to the invasion by the armed forces of the Soviet Union.

We regard this hearing as a very important opportunity to set the record straight, to discuss the nature of the events surrounding the administration policy, to separate the rhetoric from the fact, and to report the impacts of our policy on the Soviet Union and the United States.

I would add, Mr. Chairman, and members of the committee, that the issue involved between the United States and the Soviet Union in this matter is feed, specifically feed grain. The Russians grow more wheat than the United States, Canada, and Australia combined. It's feed they need. And the United States exports 70 percent of all the feed grain that's traded in the world. So we do, indeed, have an enormous economic fact to deal with in this matter.

The facts are indisputable. Last December the Soviets launched the invasion of Afghanistan, and on January 4, the President announced a series of sanctions against the Soviets to signal just how serious we considered their breach of international law and world civility. Of these, probably the most important to the Soviet econ-

omy were the agricultural trade restrictions affecting most agricultural exports to the Soviet Union beyond the 8 million tons of wheat and corn we were committed to supply under the U.S.-U.S.S.R. grains agreement. The U.S. exports to the Soviets would have been about $4.8 billion in calendar year 1980. In the absence of sanctions, about $4 billion of that would have come from the agricultural sector.

And the importance, Mr. Chairman, is that of all the U.S. trade with the Soviets, agriculture is by far the largest. To make abundantly clear how we regard the Soviets flagrant departure from the norms of civilized behavior we disrupted our most important economic and cultural ties with them. We communicated to the Soviet Union that such an aggressive act could not be taken without a commensurate price. The Soviets, we think, were surprised at our willingness to disrupt normal trade, business and cultural relationships.

The strength of the reaction of the United States and our allies could not have been anything but a powerful deterrent. Therefore, the success of this policy is measured not only in terms of economic impact, but more importantly, in terms of the unmistakable political message of our actions and those of our allies.

ECONOMIC SANCTIONS MORE THAN SYMBOLIC

But the economic sanctions were more than symbolic. Their impact on the Soviet people and economy have been significant. Thirteen million tons of U.S. corn exports and four million tons of wheat exports were suspended from shipments to the Russians. Our sales to the Soviets had gone beyond the traditional purchases of grains. For the first time, the Soviets had made significant purchases of soybeans and soybean products and poultry meat. A series of major pork purchases also seemed likely. These too were stopped. The sale and export of phospate fertilizers from Florida used in the production of fertilizers were also prohibited.

As a result of the suspension, the value of our exports to the Soviet Union will now total about $1.1 billion this calendar year, instead of the $4 billion in prospect and will be attributable mostly to the 8 million tons of corn and wheat the U.S. did not suspend.

Following the extremely poor 1979 feed and forage crop in the Soviet Union, the suspension of trade in agricultural products presented to the Soviet leadership problems of a new magnitude which they had not expected. The suspension of agricultural exports had its main impact on the important but very vulnerable lifestock sector of the Soviet economy. Improving this sector's performance and increasing the availability of meat, milk, and eggs has been a major goal of Soviet planners and a long-term expectation of Soviet citizens.

These expectations presuppose a reliance on the world market for numerous agricultural imports feed grains, oil seeds, mineral fertilizers and other products for which in many cases the United States is the world's predominant exporter. This reliance during the 1979 and 1980 marketing year was at its peak. As a consequence of the poor 1979 crops in the Soviet Union, they have purchased more than ever before, in an attempt to minimize the adverse impact of their own poor crops.

With the suspension, the Russians were forced to take even more restrictive measures.

As a result of the sales suspension, a series of predictable impacts occurred in the Soviet Union. The record shows the Soviets, denied about 10 percent of the their feed grain requirements during the first half of the year, began a massive draw-down of precious reserve stocks, leaving them more vulnerable to the extreme variability of their own weather patterns and fluctuations in their own crop.

Barred from unlimited access to the world's largest source of grain, they have been forced to search for unprecedented quantitites of grains and oilseeds from suppliers, buying whatever quantitities have been available at premium prices, disrupting their shipping schedules, and leaving their ports congested.

As a result, the Soviet Government took action, adopting measures to increase fodder production in 1980, calling for more irrigated pastures and making additional passenger cars available to farm workers who have a good performance record.

In spite of these measures, the Soviets have made adjustments in livestock feeding, slaughtered lighter-weight animals, and slowed their expansion of livestock herds.

But even with adjustments from normal practices, meat and milk production have fallen off substantially. July's meat production level was reported to be 15 percent below last year. Overall meat production in the first 7 months of the year is down 3 percent from 1979.

Per capita consumption of meat, which Soviet planners had hoped to boost to 63 kilos by 1980, has remained about constant.

And recent reports of short supplies in meat and dairy products and of consumer dissatisfaction with the scarcities that have filtered through to the West and have confirmed the impact of our strategies.

Last January, before this committee, we made the first assessment of the likely impact of the suspension on the Soviet Union. Testifying before you, Undersecretary Dale Hathaway, stated—and I will not read his complete statement again, Mr. Chairman, that there would be a prospective drop in meat output in the Soviet Union of about 4 percent.

At that time, he predicted the Soviets might be able to purchase from other suppliers 4 to 9 million of the 17 million tons of grains withheld by the United States.

After reviewing trade data provided by other exporters and completing our own assessment of Soviet supply and demand, we now believe shipments of grain to the Soviet Union from all sources were intended to reach about 37.5 million tons between July 1979 and June 1980.

During the last half of 1979, shipments to the Soviets were about 17 million tons. With this level of imports, and drawing heavily upon reserve stocks, livestock feeding was probably being maintained.

In spite of their poor 1979–80 harvest, if another 21 million tons could have been shipped during the first half of 1980, they probably could have achieved a higher increase in feed use. Thus, they could

have maintained, or maybe even expanded the livestock output in spite of their worst crop in 4 years.

Because of the suspension, however, our information indicates that shipments to the Soviets were only about 14 million tons during the first half of this year, 6.5 million tons less than they had expected, and about equal to 10 percent of that country's requirements of grain for feed for the 6-month period.

As the result of the tighter supplies, the rate of growth in the Soviet cattle and poultry inventories in the socialized sectors appears to have slowed.

Preliminary cattle numbers on July 1 were but six-tenths of 1 percent above a year ago, compared with increases of 1.2 and 1.8 percent registered on the same dates in 1979 and 1978.

Poultry numbers were up by 2.7 percent, compared to a 6.3 percent increase in July 1979 and a 7.9 percent gain for the same date in 1978.

Hog inventories on July 1 were 1.8 percent below the July 1, 1979 levels and are likely to remain below earlier levels for the remainder of this year.

Preliminary Soviet numbers show that average slaughter weights for both cattle and hogs were lower for the first half of 1980 than for the first half of 1979.

Milk production on State and collective farms in January through June of this year was 4 percent below year-earlier levels.

Milk cow productivity was 5 percent below for the same period, a further indication of feeding stress.

With fewer animals slaughtered, and at lighter weights, Soviet meat output this year will be less than the 50.5 million tons produced in 1979 and also in 1978.

The Soviets themselves—and, Mr. Chairman, this information I am about to put in the record is different from that which is in the prepared statement, because it's brand new, and the source of the information is from Soviet data published just this morning—reported that in the first 7 months of 1980, live-weight meat output by the state and collective farms was down 3 percent from a year earlier. In June, meat production was down 11 percent; in July, down 15 percent—from the same month, 1 year ago.

EXTREME INCREASE ON MEAT IMPORTS

The Soviets have relied on meat imports to complement their supplies of meat. Last year they report imports of 611,000 tons of meat, an unexpectedly high amount, far above our earlier estimate of 390,000 tons.

As a result of that extreme increase in imports, we now believe that meat imports in 1980 will reach 700,000 tons, with the largest increase in meat shipments coming from Argentina and Australia.

But in spite of the Soviet's importing a record quantity of meat, citizens of the Soviet Union are not likely to see any improvement in their diets. Since 1975, the annual per capita consumption of meat has remained near 57 kilograms, including consumption of slaughter fat and offals, with no possibility of raising that figure this year.

The disappointing reality to the Soviet leadership is that they cannot meet their stated goal of 63 kilos per person in the last year

of the 10th 5-year plan. They will have to be satisfied to just maintain the status quo.

More important than these statistics are the implications for the Soviet leaders. In recent weeks there have been frequent and unprecedented reports of strikes and work stoppages in Soviet motor vehicle plants, resulting from consumer dissatisfaction with shortages of meat and dairy products.

The shortages cited are precisely of the products at which the U.S. trade restrictions have been directed.

Indirectly, they confirm the impact of the sanctions. From the outset, we knew that for the suspension to be fully effective, we would have to receive the support of other grain exporting countries.

From the suspension's earliest days, we have met with the major exporters and, in general, received such cooperation.

Australia, Canada, and the European Community have undertaken specific commitments to restrain sales to the Soviet Union in order not to replace shipments denied them by the United States.

Argentina has not agreed to restrain sales, but has cooperated in monitoring trade flows.

Furthermore, the Governments of Canada, the Community, and Australia have confirmed that the measures being taken in concert will be continued as they begin their 1980–81 marketing seasons.

Meetings for the purpose of monitoring the flow of grain to the Soviet Union also proceed, with Argentina continuing to provide information on shipments.

Marketing authorities from several of these cooperating countries continue to make some new commitments in the 1979–80 shipment of grain to the Soviet Union. But these have not been inconsistent with our understandings.

As for new sales for shipment in the 1980–81 year, these have run parallel with our own decision to license new Soviet sales for shipment from October 1 of this year through next September.

As for the longer term implication of the sales suspension, the final results will depend upon Soviet crop production, policy decisions, and any of a series of a factors beyond our control.

We know, however, in order for the Soviets to rebuild stocks, maintain livestock inventories and output, while reducing their high level of grain imports, total 1980 grain production would have to be a record high.

Record production is not the prospect for this year. Currently, total Soviet grain production is projected to reach about 210 million tons, well above the 1979 harvest of 179 million tons, but far below the record 237 million tons produced in 1978.

This year's crop has been a late one, as a cool, wet spring and summer have deterred its progress to the point that it is becoming increasing susceptible to an early frost. Spring crops have already been damaged by hot, dry conditions in certain areas.

Even with good harvesting conditions though, this year's late crop may jeopardize early fall seedings.

Total Soviet import of grain are likely to be slightly less than last year, around 28 million tons, of which some may be used to partially rebuild stocks.

According to last week's export sales reports, 550,000 tons of U.S. wheat and 1.2 million tons of U.S. corn have been reported as sold to the Soviet Union under the last year of our 5-year agreement.

In technical discussions with the Soviets, they confirmed their intention to purchase at least 3 million tons of wheat and 3 million tons of corn in the final agreement year.

We actually believe the Soviets plan to purchase the full 8 million tons allowed to them under this agreement.

The balance of the 28-million-ton estimate would have to come from other suppliers. Argentina has just signed a 5-year agreement with the Soviets, promising to supply the Soviet Union with 4 million tons of corn and sorghum and 500,000 tons of soybeans annually, beginning in 1981.

The major exporters have agreed to sell only traditional levels of sales to the Russians. Shipments by the cooperating exporters, Canada, Australia, and the Community, are estimated at around 9 million tons, slightly above the year earlier level.

Of the minor exporters, few are able to provide large enough quantities to go very far in meeting Soviet needs.

Still, as a group, these countries, together with Argentina, may supply more than a fourth of the Soviet's import needs in 1980–81.

With production at 210 million tons and imports of about 28 million tons, the total quantity of grain available to the Soviets next year would be greater than the quantity available this year.

This would limit major adjustments in the livestock sector and would imply some rebuilding of inventories.

While the suspension affected the Soviets, it also risked serious consequences for our own economy, with most of the impact affecting farm prices and farm income.

We now know the net impact of the embargo on U.S. farm and food sectors was relatively small, substantially smaller than previous and subsequent domestic crop supply and demand developments.

The most immediate and virtually unavoidable impact of the suspension fell on producers who sold corn, wheat, and soybeans at temporarily depressed prices earlier in the year to meet other financial commitments.

The potentially much larger, wider spread impact of the suspension was offset by the actions the President directed to be taken to minimize the declines in farm prices and farm income.

The measures we took included assuming contractual obligations for wheat, corn, soybeans, and products once destined for the Soviet Union, keeping the displaced grains and oilseeds from collapsing the market; making increases in loan rates for wheat and feedgrains and modifications in the farmer-owned reserve program to encourage producers themselves to isolate quantities of grain from the market, making some direct purchases of wheat, corn, and poultry to help protect prices; while continuing aggressive export market development activities and renewing emphasis on longer term domestic market development, such as through the use of grain in energy production.

Despite these actions, there undoubtedly was some impact on the balance of trade. After provision is made for changing patterns, we estimate that, in the absence of a suspension, at most, another 4

million tons of feedgrain and small quantities of soybeans and poultry would have been exported.

At most, these lost exports were equivalent to 2 percent of the value of our own agricultural product exports, which will be up $8 billion this year, to an all-time record of $40 billion. The total tonnage will be over 160 million tons, 25 million tons higher than the previous record, which was last year.

The added supplies carried over at the end of the 1979–80 year also tended to keep farm prices slightly lower than they would otherwise have been.

However, the actions we initiated after the suspension helped to keep these losses to no more than one-half of 1 percent of gross farm receipts.

At the same time, however, lower feed grain and soybean receipts to crop producers meant somewhat lower feed costs to livestock producers. While difficult to measure, the suspension probably kept food price increases in 1979–80 about one-tenth of 1 percent lower than they would otherwise have been.

FARM PRICES REBOUND

Farm prices have now rebounded, however, while the strong prices are projected to boost cash receipts to record levels.

We have known since November of last year that net farm income would decline this year. This is attributable to sharply higher input prices and abnormally large crop and livestock production.

But to understand this year's situation, it is necessary to remember that crop production last year was record large.

Mr. Chairman, last year we broke all yields records on the five major crops. The last time that happened was 22 years ago, in 1958. And so we had that enormous weight—the huge crops to carry through the season. And we think we've done tolerably well.

The CHAIRMAN. Secretary Bergland, could you wind up in about a minute or so?

Secretary BERGLAND. Yes, sir, I can.

The balance of my statement is simply detailing what has been said earlier, Mr. Chairman. And I would say, in conclusion, that we have provided the committee with charts which are significant.

The first of the charts shows price trends and will show that last year the corn price peaked in mid-July and started sagging throughout the season because of the onslaught of the coming of the huge crop.

There is some notion that corn prices broke with the embargo; but, indeed, corn prices had peaked out in June and were on the downhill side.

The same can be said of soybeans. The wheat charts are self-explanatory.

We have another chart, Mr. Chairman, that shows the latest estimates on exports, which, of course, at 162 million tons, represents the biggest gain in any single year in history.

Mr. Chairman, that concludes our statement.

[Complete statement follows:]

STATEMENT BY SECRETARY OF AGRICULTURE, BOB BERGLAND

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today to discuss the series of measures the Administration has taken in response to the invasion of Afghanistan by armed forces of the Soviet Union.

We regard this hearing as an important opportunity to set the record straight—to discuss the nature of the events surrounding Administration policy, to separate the rhetoric from the facts, and to report the impacts of our policies on the U.S.S.R. and on the U.S. food and agriculture sector.

The facts are indisputable. Late last December, Soviet troops launched an invasion of Afghanistan. On January 4, the President announced a series of sanctions against the Soviets to signal just how serious we considered their breach of international law and world stability. Of these, probably the most important to the Soviet economy were the agricultural trade restrictions affecting most agricultural exports to the U.S.S.R. beyond the 8 million tons of wheat and corn we were committed to supply under the U.S.-U.S.S.R. Grains Agreement. U.S. exports to the U.S.S.R. would have been about $4.8 billion in calendar year 1980 in the absence of the sanctions; about $4 billion of that would have come from agricultural exports.

To make abundantly clear how we regarded the Soviets' flagrant departure from the norms of civilized behavior, we disrupted our most important economic and cultural ties with them. In communicating to the Soviet Union that such an aggressive act could not be taken without a commensurate price, the Soviets were surprised at our willingness to disrupt normal trade, business and cultural relationships. The strength of the reaction of the United States and our allies could not have been anything but a powerful deterrent. Therefore, the success of this policy is measured not only in terms of economic impact, but more importantly in terms of the unmistakable political message of our actions and those of our allies.

But the economic sanctions were more than symbolic. Their impact on the Soviet people and economy have been significant. Thirteen million tons of U.S. corn exports and 4 million tons of wheat exports were suspended from shipment to the Soviet Union. Our sales to the Soviet had gone beyond the traditional purchases of grains. For the first time, the Soviets had made significant purchases of soybeans and products and poultry meat. A series of major pork purchases also seemed likely. These, too, were halted. The sale and export of phosphates used in the production of fertilizers were also prohibited.

As a result of the suspension, the value of agricultural exports to the Soviet Union will now total about $1.1 billion this calendar year instead of the $4 billlion in prospect, and will be attributable mostly to the 8 million tons of wheat and corn the U.S. remained willing to sell in order to maintain our international commitments.

Following the extremely poor 1979 feed and forage crop in the U.S.S.R., the disruptions of trade in agricultural products presented the Soviet leadership with problems of a new magnitude which they had not expected.

The suspension of agricultural exports had its main impact on the important—but vulnerable—livestock sector of the Soviet economy. Improving this sector's performance and increasing the availability of meat, milk and eggs has been a major goal of Soviet planners and a long-term expectation for Soviet citizens. But these expectations presupposed a reliance on the world market for numerous agricultural imports—feedgrains, oilseeds, mineral fertilizers and other products—for which in many cases, the United States is the world's predominant exporter.

This reliance during the 1979/80 marketing year was at its peak—the consequences of the poor 1979 crops in the Soviet Union. They had purchased more than ever before in an attempt to minimize the adverse impact of their poor crops. With the suspension, the Soviets were forced to take even more restrictive measures.

THE IMPACTS

As a result of the sales suspension, a series of predictable impacts occurred in the Soviet Union. The record shows:

The Soviets, denied about 10 percent of their feed grain requirements during the first half of the year, began a massive drawdown of precious reserve stocks, leaving them more vulnerable to the extreme variability of their weather patterns and fluctuations in their own crop production.

Barred from unlimited access to the world's largest source of grains, they have been forced to search for unprecedented quantities of grain and oilseeds from suppliers, buying whatever quantities have been available at premium prices, disrupting their shipping schedules and leaving their ports congested as a result.

The Soviet government took action, adopting measures to increases fodder production in 1980, calling for more irrigated pastures and making additional passenger

cars available to farm workers with good performance all for the purpose of reducing the "overconsumption" of grain.

In spite of these measures, the Soviets have made adjustments in livestock feeding, slaughtered lighter-weight animals and slowed their expansion of livestock herds.

But, even with adjustments from normal practices, meat and milk production have fallen off substantially. June's meat production level was reported to be 11 percent below last year. Overall, meat production in the first half of the year has been reported down from 1979.

Per capita consumption of meat—which Soviet planners had hoped to boost to 63 kilos by 1980—has remained about constant.

And, recent reports of short supplies of meat and dairy products and of consumer disatisfaction with the scarcities have filtered through to the West, and have confirmed the impact of our strategies.

THE PREDICTIONS AND THE RESULTS

Last January, before this very committee, we made our first assessment of the likely impacts of the suspension of sales to the U.S.S.R. Testifying before you, Under Secretary Dale Hathaway stated:

"The suspension of grain sales to the U.S.S.R. will sharply reduce the availability of grain to the Soviet livestock industry, especially in the later winter and spring of 1980. * * *

We [now] estimate that use of grain for feed during 1979/80 will drop at least 5 percent from the presuspension forecast. The reduction in grain feed will be exacerbated by its concentration during the late winter, spring and summer months. This is the period when U.S. exports will cease due to the trade suspension and when the Southern Hemisphere production is moving into position for export. Consequently, the relative shortfall during this period will be more severe and may force a reduction in hog and poultry numbers. The dislocations caused in transport and location of feed supplies also may worsen production performance

Soviet meat production in 1980 could be down significantly from 1979 output. Any downturn in Soviet meat production would result in reduced per capita consumption unless offset by meat imports. Meat consumption has stagnated at about 57 kilograms (125 pounds) per capita since 1975, following rapid growth during the first half of the 1970's. The prospective drop in 1980 meat output could be expected to lower consumption roughly by 4 percent and aggravate the concerns of Soviet consumers expecting further improvements in meat supplies."

At that time, we predicted that the Soviets might be able to purchase from other suppliers 4 to 9 million of the 17 million tons of grain withheld by the United States.

After reviewing trade data provided by other exporters and completing our own assessment of Soviet supply and demand, we now believe shipments of grain to the Soviet Union from all sources were intended to reach about 37.5 million tons between July 1979 and June 1980.

During the last half of 1979, shipments to the Soviets were about 17 million tons. With this level of imports, and drawing heavily upon reserve stocks, livestock feeding was probably being maintained in spite of their poor 1979/80 harvest. If another 20 to 21 million tons could have been shipped during the first half of 1980, they probably could have achieved a higher increase in feed use. Thus, they could have maintained—or even expanded—livestock output in the wake of their worst crop in four years.

Because of the suspension, however, our information indicates shipments to the Soviets were only about 14 million tons during the first half of 1980—6.5 million less than they had expected and about equal to 10 percent of that country's requirements of grain for feed over the six-month period.

As a a result of the tighter supplies, the rate of growth in Soviet cattle and poultry inventories in the socialized sector appears to have slowed. Preliminary cattle numbers on July 1 were but six-tenths of a percent above a year ago, compared with increases of 1.2 percent and 1.8 percent registered on the same date in 1979 and 1978, respectively. Poultry numbers were up 2.7 percent, compared with a 6.3 percent increase July 1, 1979 and a 7.9 percent gain for the same date in 1978.

Hog inventories on July were 1.8 percent below their July 1, 1979 levels and are likely to remain below year-earlier levels for the remainder of the year.

Preliminary Soviet numbers show that average slaughter weights for both cattle and hogs for slaughter were lower for the first half of 1980 than for the first half of 1979.

Milk production on state and collective farms for January-June 1980 was 4 percent below year-earlier levels. Milk cow productivity was 5 percent below for the same period, a further indication of feeding stress.

With fewer animals slaughtered and at lighter weights, Soviet meat output this year will be less than the 15.5 million tons produced in 1979 and also in 1978. The Soviets themselves reported that in the first six months of 1980, liveweight meat output on state and collective farms was down one percent from a year earlier. Pork was down 4 percent, beef down 2 percent and poultry and sheep and goat meat up by 11 percent. Considering the Soviet estimates, we are now predicting total meat production to be 15.3 million tons for 1980. Overall, we expect all of the reduction to occur in pork production—which relies most heavily on feed concentrates.

The Soviets have relied on meat imports to complement their supplies of meat. Last year, they report imports of 611,000 tons of meat—an unexpectedly high amount, far above our earlier estimate of 390,000 tons. As a result of that extreme increase in imports, we now believe that meat imports in 1980 will reach 700,000 tons—with the largest increase in meat shipments coming from Argentina and Australia.

But in spite of the Soviets importing a record quantity of meat, citizens of the Soviet Union are not likely to see any improvement in their diets. Since 1975, the annual per capita consumption of meat has remained near 57 kilograms, including consumption of slaughter fat and offals. With no possibility of raising that figure this year, the disappointing reality to Soviet leadership is that they cannot meet their stated goal of 63 kilos per person in the last year of the tenth five-year plan. They will have to be satisfied to just maintain the status quo.

More important than these statistics are the implications for Soviet leaders. In recent weeks, there have been frequent and unprecedented reports of strikes and work stoppages in Soviet motor vehicle plants resulting from consumer disatisfaction with shortages of meat and dairy products. The shortages cited are precisely of the products at which the U.S. trade restrictions have been directed. Indirectly, they confirm the impact of the sanctions.

COOPERATION WITH OTHER EXPORTING NATIONS

From the outset, we knew that for the suspension to be fully effective, we would have to receive the support of other grain exporting countries. From the suspension's earliest days, we have met with the major exporters and, in general, received such cooperation.

Australia, Canada and the European Community have undertaken specific commitments to restrain sales to the Soviet Union in order not to replace shipments denied by the United States. Argentina has not agreed to restrain sales, but has cooperated in monitoring trade flows.

With the support of other major grain exporting countries in the U.S. suspension action vital, the governments of Canada, the EC and Australia have confirmed that the measures being taken in concert will be continued as they begin their 1980/81 marketing seasons. Meeting for the purpose of monitoring the flow of grain to the U.S.S.R. also proceed, with Argentina continuing to provide information on shipments.

Marketing authorities from several of these cooperating countries continued to make some new commitments for 1979/80 shipment of grain to the U.S.S.R., but these have not been inconsistent with our understandings. As for new sales for shipment in the 1980/81 season, these have run parallel with our own decision to license new Soviet sales for shipment from October 1 through next September.

1980 SOVIET GRAIN SUPPLIES

As for the longer-term implications of the sales suspension, the final results will depend upon Soviet crop production, policy decisions and any of a series of factors beyond our control. We know, however, in order for the Soviets to rebuild stocks, maintain livestock inventories and output while reducting their high level of grain imports, total 1980 grain production would have to be record high. Record production is not the prospect for 1980.

Currently, total Soviet grain production is projected to reach about 210 million tons—well above the 1979 harvest of 179 million tons, but far below the record 237 million tons produced in 1978. This year's crop has been a late one, as a cool wet spring and summer have deterred its progress to the point that it is becoming increasingly susceptible to early frost. Spring crops have already been damaged by hot, dry conditions in certain areas. Even with good harvesting conditions though, this year's late crop may jeopardize early fall seedings.

Total Soviet imports of grain are likely to be slightly less than last year—around 28 million tons—of which some may be used to partially rebuild stocks.

According to last week's Export Sales report, 550,000 tons of U.S. wheat and 1.2 million tons of U.S. corn have been reported as sold to the U.S.S.R. under the final year of our five-year agreement. In recent technical discussions with the Soviets, they confirmed their intention to purchase at least 3 million tons of wheat and 3 million tons of corn in the final agreement year. We actually expect the Soviets to purchase the full 8 million tons allowed to them.

The balance of the 28-million-ton estimate would have to come from other suppliers. Argentina just signed a five-year agreement with the Soviets, promising to supply the Soviet Union with 4 million tons of corn and sorghum and 500,000 tons of soybeans annually beginning in 1981.

The major exporters have agreed to sell only traditional levels of sales to the Soviets. Shipments by the cooperating exporters—Canada, Australia and the EC—are estimated at around 9 million tons, slightly above the year-earlier level. Of the minor exporters, few are able to provide large enough quantities to go far in meeting Soviet needs. Still as a group, these countries together with Argentina may supply more than a fourth of the Soviet's import needs in 1980/81.

With production at 210 million tons and imports of about 28 million tons, total quantity of grain available to the Soviets next year would be greater than the quantity available this year. This would limit major adjustments in the livestock sector and would imply some rebuilding of stocks.

THE DOMESTIC IMPACTS

While the suspension affected the Soviets, it also risked serious consequences for our own economy—with most of the impact affecting farm prices and farm income. We now know that net impact of the embargo on the U.S. farm and food sectors was relatively small—substantially smaller than previous and subsequent domestic crop supply and demand developments. The most immediate, and virtually unavoidable, impact of the suspension fell on producers who sold corn, wheat and soybeans at temporarily-depressed prices early in the year to meet other financial commitments.

The potentially much larger, wider-spread impact of the suspension was offset by the actions the President directed be taken to minimize the declines in farm prices and farm income. The measures we took included assuming contractual obligations for wheat, corn, soybeans and soybean products once destined for the U.S.S.R., keeping the displaced grains and oilseeds from collapsing the market; making increases in loan rates for wheat and feed grains and modifications in the farmer-owned reserve program to encourage producers themselves to isolate quantities of grains from the market; making some direct purchases of wheat, corn and poultry to help protect prices; continuing aggressive export market development activities and renewing emphasis on longer-term domestic market development such as through the use of grain in energy production.

Despite these actions, there was undoubtedly some impact on the balance of trade. After provision is made for changing trade patterns, we estimate that—in the absence of the suspension—at most another 4 million tons of feed grain and small quantities of soybeans and poultry would have been exported. At most, these lost exports were equivalent to 2 percent of the value of our agricultural product exports, which will be up about $8 billion this year, to an all-time record $40 billion.

The added supplies carried over at the end of the 1979/80 marketing year also tended to keep farm prices slightly lower than they would have been otherwise. However, the actions we initiated after the suspension helped to keep these losses to no more than one-half of one percent of gross farm receipts. At the same time, however, lower feed grain and soybean receipts to crop producers meant somewhat lower feed costs to livestock producers.

While difficult to measure, the suspension probably keep food price increases in 1979/80 about one-tenth of 1 percent lower than they otherwise would have been.

Farm prices have now rebounded. However, while the stronger prices are projected to boost cash receipts to record levels, we have known since November 1979 that net farm income would decline in 1980. This is attributable to sharply higher input prices and abnormally large crop and livestock product production. But to understand this year's situation, it is necessary to remember that crop production last year was record large—the consequence of very unusual weather during the growing season.

Larger-than-expected crops pushed corn and soybean prices down during the last half of 1979, well before the suspension. Meat animal production became excessive late in 1979 and during the first half of 1980, hog and poultry producers, as well as cattle feeders, were losing money. It is the producers in this sector—those who

produce meat animal and eggs—who are experiencing most of the decline in farm income in 1980.

THE AGRICULTURAL OUTLOOK

Recent crop developments are enhancing price and income prospects for U.S. agriculture.

Accordingly to our most recent assessment of world crop conditions, world wheat production and consumption are likely to be in close balance. Stocks may increase slightly.

World rice production will increase this year—enough to permit a gain in per capita consumption. This is in sharp contrast to last year when both per capita consumption and rice stocks declined.

World coarse grain production is not expected to meet consumption requirements and for the second year in a row, stocks are likely to fall.

World oilseed production is also expected to fall short of the world consumption level and world stocks will decline.

World cotton production and consumption will probably be in close balance with stock levels remaining very low.

But while the rest of the world is generally maintaining of even increasing its production this year, weather conditions in this country are precipitating the greatest year-to-year decline in agricultural production to take place since the 1974 disaster. Our spring-planted crops and hay, in particular, have been hurt by July adverse weather so that these crops may total 431 million tons—down 69 million tons from last year.

U.S. feed grain production is indicated to be 197 million tons—compared to 234 million last year—and below our total use estimate of 219 million tons for the 1980/81 season.

Oilseed production is indicated to be 59.8 million tons compared to the 72.5 million tons produced last year. Total use in 1979/80 is estimated at about 64 million tons and stocks are the beginning of the new season which begins September 1 are estimated at 13.3 million tons.

U.S. wheat production, however, is record high and with consumption expected to be 62 million tons, stocks should remain about the same.

In spite of these facts, we anticipate that we will be able to meet our domestic and export demands for food and fiber without difficulty. We have adequate stocks of grain in reserve and some in government hands. But as a result of supply-demand conditions, crops will be sold at significantly higher prices. Those producers who have grains in reserve will be the ones to reap the greatest benefits and overall, income prospects for them—and the agricultural sector as a whole—have improved. Unfortunately, those in the drought areas will have a difficult year as will most meat animal producers.

Food prices in 1980 will be up between 8 and 9 percent—a little more than expected before the hot, dry weather but well within the range we predicted last November before crop prospects were known and before the sales suspension was invoked.

WHAT IF

No one can say with any real precision what would have happened had the President not taken the action he did to demonstrate to the Soviets our outrage over the invasion of Afghanistan. Certainly, the actions he chose have been effective and far preferable to the military alternatives.

Looking in retrospect, we can say the decision was a hard one. Yet, we cannot say that agricultural producers would have been better off in the long run if the President had not acted as he did. Our farm exports will far exceed any prior years' records and will approach $40 billion in value this fiscal year. The volume of these exports will be 25 million tons above 1979's volume of sales—reflecting sales to our traditional customers such as the Japanese and the European Community, but also new customers, including those we have acquired in the shifts in world trading patterns.

In retrospect, the decisions we made regarding domestic production in the wake of the suspension were sound, although at the time, we were seriously criticized for not diverting acreage from production immediately after the suspension was announced. With weather-reduced supplies this year, some grains once destined for the Soviet Union and taken off the market by producers and placed in the more-attractive reserve program will be available for sale by the producers themselves at sharply higher prices.

Within the context of the existing five-year agreement with the Soviets, we continue to sell grains to the U.S.S.R. and we anticipate that they will continue to seek U.S. agricultural products in the future.

Digressing for a moment, it must be a sobering experience for the Soviet leadership to reflect on how long their citizens will be willing to wait for meat on their tables which their counterparts in Eastern Europe are already enjoying. It is higher than in the U.S.S.R.)—a wave of strikes and work stoppages over increased meat prices is sweeping the land. It is not inconceivable that the Soviets—who know far better than we do the weaknesses and shortcomings of their system—might decide that living with the suspension is just not worth the price. We hope they would come to that conclusion soon.

But without the proper Soviet response, talk of lifting the suspension raises some important questions. First of all, it would communicate to the Soviets that we do not mean what we say—that for the sake of commercial gain, we acquiesce to their challenge to world peace and security.

We do not intend for that to happen.

Lifting the sales suspension would not improve conditions in the agricultural sector. As I pointed out, market conditions reflect how supplies related to demand for them. With our production down and with our exports already moving at about capacity, no market benefit can be derived while the political repercussions would be serve.

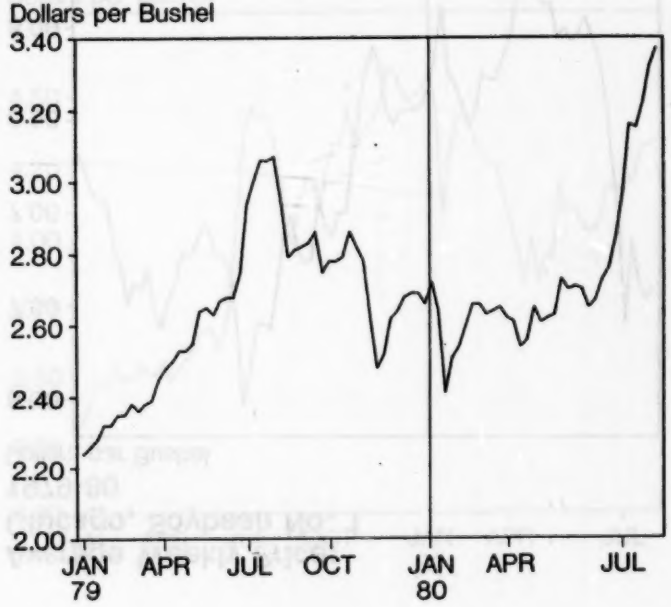
Indeed, if we were to lift the suspension and if the Soviets were to turn back principally to the U.S. market, we could find increased world demand for feed grains—which would aggravate an already-tight supply situation—and reduced world demand for food grains—of which we have plenty for export.

Consumers would not benefit from an end to the suspension since it has had no appreciable affect on food prices either way.

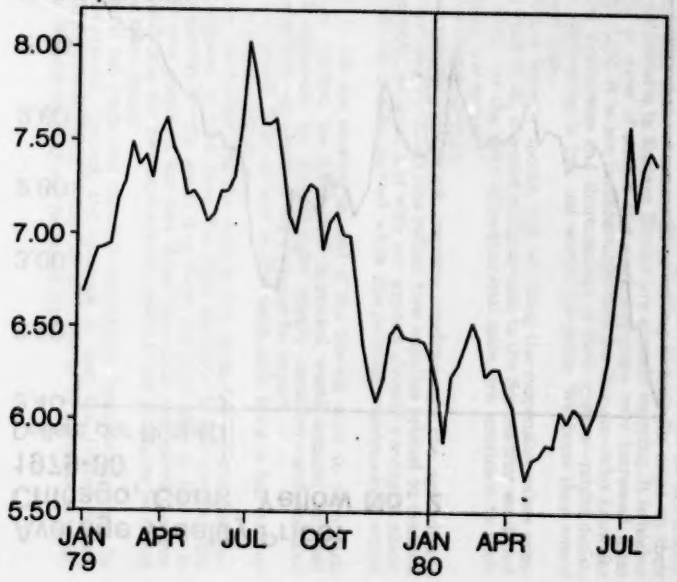
Given all the facts in the matter and the time to look back, the sales suspension to the Soviet Union appears to have been the right decision. It has strained the Soviet leadership's credibility in the sense they have not been able to live up to their promises to their own people. It has cost them financially and added inconvenience. While it required that our own agricultural policies and programs be tested under strain, it proved them sound.

The crucial message of our trade and cultural restrictions, however, does not lie in their precise measurement. Instead, the message is that the United States, committed to world peace and stability, could not continue to do business as usual with the Soviet Union. We are meeting our responsibilities.

Average Weekly Price:
Chicago, Corn: Yellow No. 2
1979-80



Average Weekly Price:
Chicago, Soybean No. 1
1979-80
Dollars per Bushel



Average Weekly Prices:
Kansas City, Wheat: Hard Winter No. 1
1979-80

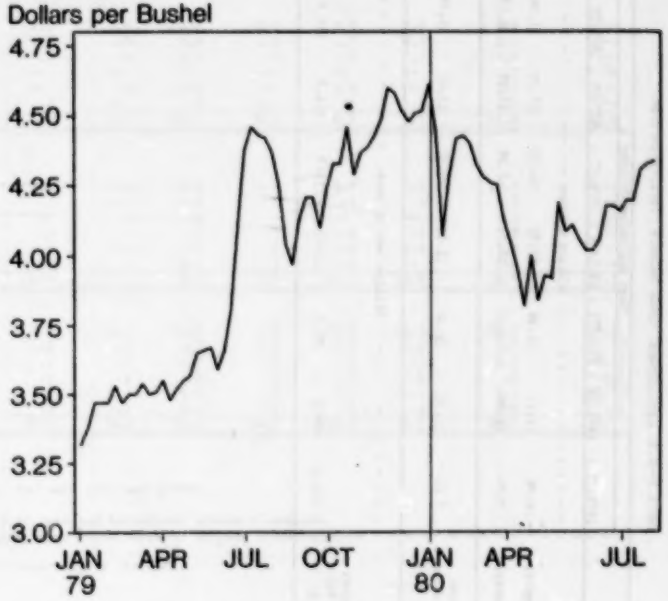


Table 1—U.S. agricultural trade balance, 1972/73-1979/80

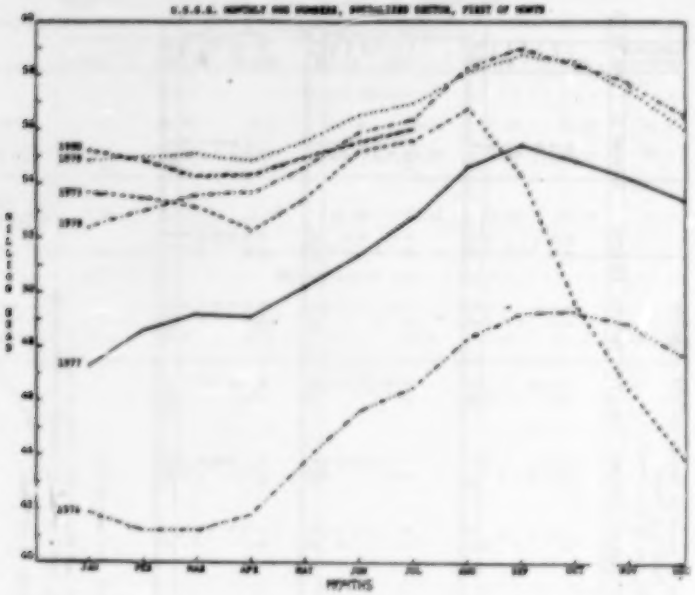
	Year beginning October 1							
	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	Forecast 1979/80
	Billion dollars							
Exports	14.98	21.61	21.85	22.76	24.00	27.30	31.98	40.0
Imports	7.74	10.06	9.47	10.51	13.38	13.89	16.19	17.5
Trade balance	7.24	11.55	12.38	12.25	10.62	13.42	15.79	22.5
	Million metric tons							
Export Vol-1/	106.6	99.9	93.5	114.1	111.9	131.9	137.5	162.1

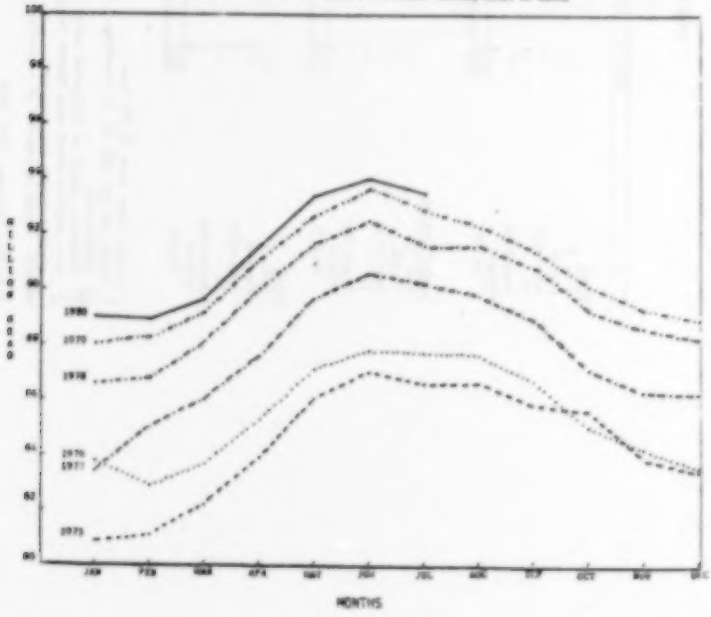
USSR Imports of Grain by Source 1972/73 - 1980/81
July/June Years
(Million Metric Tons)

	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80 1/	1980/81 2/
Wheat									
U.S. 3/	9.5	2.7	1.0	4.0	2.9	3.3	2.9	3.9	—
Canada	4.2	1.6	.3	3.2	1.2	1.7	2.0	2.1	—
Australia	.9	.1	.8	1.2	.4	.3	.1	2.6	—
EC	.7	—	—	—	—	—	—	.6	—
Argentina	—	—	.7	1.2	.1	1.1	—	2.0	—
Others	.3	.1	—	.4	—	.2	.1	.6	—
Total*	15.6	4.5	2.5	10.1	4.6	6.7	5.1	11.8	13.0
Coarse Grains									
U.S. 3/	4.2	5.2	1.3	9.9	4.5	9.2	8.3	11.4	—
Canada	.9	.2	—	1.3	.2	.2	.1	1.3	—
Australia	—	0	.1	.8	.1	—	—	1.3	—
EC	1.2	.5	.1	.5	.2	.2	.2	.2	—
Argentina	.1	.3	1.1	.2	.2	1.6	1.4	3.1	—
Others	.5	.2	.1	2.6	.3	.6	—	1.4	—
Total*	6.9	6.4	2.7	15.6	5.7	11.7	10.0	18.7	14.5
Total									
U.S. 3/	13.7	7.9	2.3	13.9	7.4	12.5	11.2	15.3	8.0
Canada	5.1	1.8	.3	4.5	1.4	1.9	2.1	3.4	
Australia	.9	.1	.9	2.0	.5	.3	.1	3.9	9.0
EC	1.9	.5	.1	.5	.2	.2	.2	.8	
Argentina	.1	.3	1.8	1.4	.3	2.7	1.4	5.1	10.5
Others	.8	.3	.1	3.0	.3	.8	.1	2.0	
Total*	22.5	10.9	5.2	25.7	10.3	18.4	15.1	30.5	27.5

—Denotes less than 50,000 tons
* Totals may not add due to rounding. Excludes rice and pulses.
1/ Preliminary
2/ Forecast, based on indicated sales to date and historical levels of exports.
3/ U.S. exports based upon Export Sales data, which normally include transshipments whereas Census data may not.
SOURCE: Based on reports of countries exporting to the USSR.

Commodity Programs, FAS, USDA
August 18, 1980


1977
1976
MONTHS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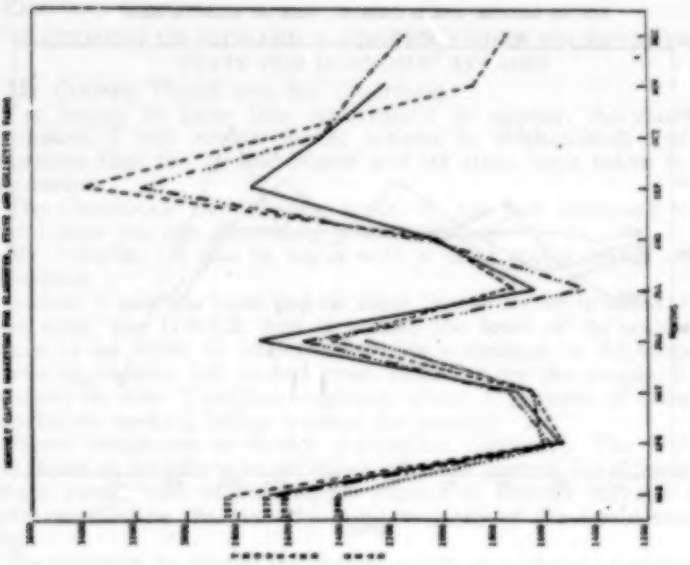
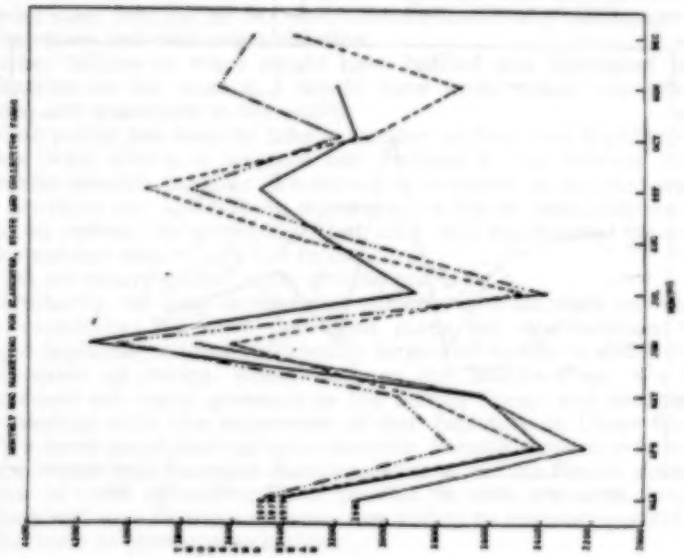
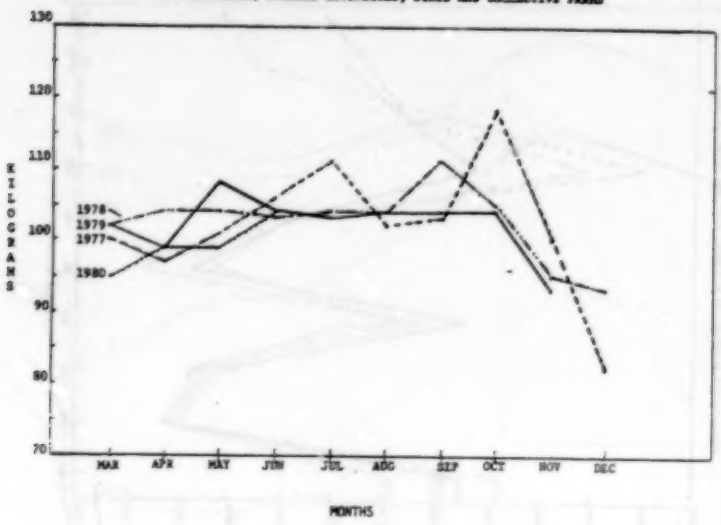
MONTHS

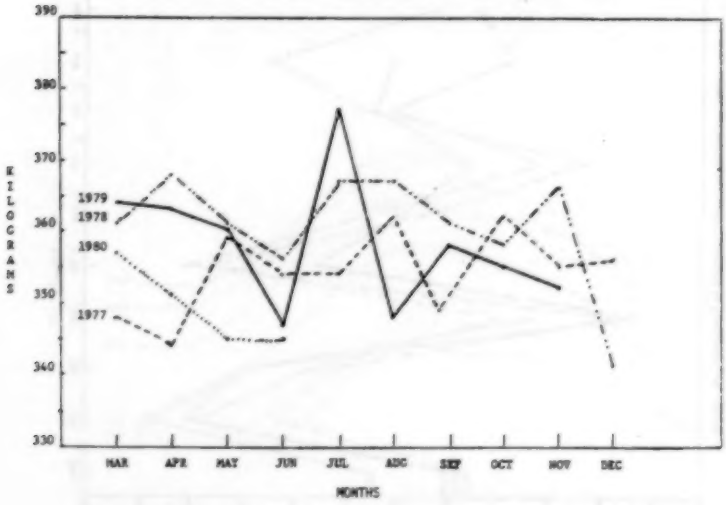




HOGS FOR SLAUGHTER, AVERAGE LIVEWEIGHT, STATE AND COLLECTIVE FARMS



CATTLE FOR SLAUGHTER, AVERAGE LIVEWEIGHT, STATE AND COLLECTIVE FARMS



The CHAIRMAN. Thank you very much, Secretary Bergland.
Secretary Cooper.

STATEMENT OF RICHARD N. COOPER, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. COOPER. Thank you, Mr. Chairman.

I'm happy to have this opportunity to appear. As you have requested, I will review Soviet actions in Afghanistan and the responses that the United States and its allies have taken to this aggression.

The CHAIRMAN. Mr. Cooper, again, let me just interrupt to say that I hope you can abbreviate your statement.

Mr. COOPER. I'd like to begin with a brief status report on Afghanistan.

Almost 8 months have passed since Soviet forces invaded. Since that time, the U.S.S.R. has increased the level of its occupation forces in an effort to quell nationwide resistance in Afghanistan. Soviet aggression has caused great suffering for the people. It has resulted in over 1 million Afghans, about 7 percent of the total population, seeking refuge outside the country.

Fierce resistance to Soviet occupation continues. The U.S.S.R. has failed in its efforts to establish effective control. Its attempts to obtain recognition of the puppet regime of Babrak Karmel have been rebuffed by the overwhelming majority of the world community.

We continue to regard the Soviet action as a blatant violation of the rules of international conduct and a serious threat to world peace.

We felt that we had to respond vigorously to this provocative Soviet step. Failure on our part to react could only encourage new adventures and risk miscalculation.

Also, failure to react would have baffled and distressed many countries in the area and would have undermined our position there and elsewhere in the world.

Our policy has been to take a number of firm and highly visible steps with which to express our feelings to the Soviets in the clearest possible manner. We intend to continue to do what we can to convince the U.S.S.R. to withdraw its forces from Afghanistan and to reduce the possibility that they will be tempted to undertake similar ventures in the future.

Let me describe briefly the actions taken.

Militarily, we have accelerated our efforts to increase our strategic capability. We have developed plans for establishment of a rapid deployment force sufficiently large and mobile to deter Soviet aggression in critical areas, such as the Middle East. We have increased our naval presence in the Indian Ocean and are rapidly proceeding with the expansion of our facilities in Diego Garcia.

We have concluded agreements with friendly goverments in the area, which will increase their capacity to reduce Soviet pressure. Some of these agreements will provide us with access to facilities which will significantly improve our ability to respond quickly and effectively to provocative actions.

ACTION ON THE DIPLOMATIC FRONT

Our response has not occurred in a vacuum. On the diplomatic front, we have worked closely with our allies and other nations concerned by the invasion.

No action by a major power has been more quickly or more universally condemned as votes in the United Nations and the European Community, the Islamic Conference, and numerous other international bodies testify.

Any hopes Moscow may have had that the international community would shrug off the invasion have been shattered.

The boycott of the Moscow Olympics helped persuade 59 other countries to take similar action. Countries joining the boycott included West Germany, Japan, Canada, and the People's Republic of China.

Many participating teams were diluted by individual and federation decisions not to attend. The sweep of medals by the Warsaw Pact countries illustrates the extent to which outstanding Olympic teams from all continents supported the boycott.

Economically, we took a number of measures in areas intended to result in substantial cost and disruptions to the U.S.S.R.

These included the restrictions on grain exports and other agricultural commodities, phosphates, goods for the Olympics and high-technology items.

It is, of course, obvious that any interference with trade involves cost for the exporting country, as well as for the importing country.

Under the circumstances, it was inappropriate to maintain business as usual. Some of our actions were clearly punitive in character and intentionally designed to get the Soviets to take notice of the strong negative reaction of the United States and other countries.

Other actions were a longer-term response to a new situation. The Soviet invasion makes it most important that the United States and its allies bolster the countries of Southwest Asia, especially Turkey and Pakistan, and increase the capability of our military forces in the region.

We must also reassess the strategic significance of our exports to the U.S.S.R. In this context, we have proposed tightening the application of CoCom procedures and suggested that CoCom consult on all major process know-how sales of potential military significance.

We believe that our actions have demonstated to the Soviets that they cannot engage in aggressive actions with impunity.

The United States has shown that it is willing to assume a leadership role among our allies and to make sacrifices when we are provoked.

This demonstration of our readiness to react will help deter future Soviet aggression.

In formulating our response, we chose specific measures, such as the restrictions on exports of grain and high technology items, which would impose tangible costs on the Soviets.

We have deliberately avoided sweeping measures, such as a total trade embargo. We do not seek a return to the cold war. We wish to leave the door open for rebuilding our economic relationship with the Soviet Union.

I'll skip over, Mr. Chairman, my description of the embargo of grains and its results. Secretary Bergland has already done that thoroughly. He's also alluded to restrictions on the export of phosphate fertilizer, especially super phosphoric acid of which we had agreed to sell a million tons annually as part of a 20-year deal.

The inability to obtain this super phosphoric acid by the Soviet Union will delay and disrupt Soviet plans to produce complex liquid fertilizers, since there is no alternative supply for this quantity of super phosphoric acid.

Utilization of the lower grades of a phosphoric acid or phosphoric fertilizers is possible, but they cannot act as complete substitutes in the short run. It's too early to see what effect this restriction will have on Soviet actions over the longer term.

SANCTIONS OF HIGH TECHNOLOGY

In the area of high technology, in January we suspended the issuance of new licenses, and shipments to the Soviet Union under old licenses, pending the development of new licensing policy.

The most important element of the new policy, which was announced in March, is generally to approve no exceptions from agreed CoCom controls on exports to the Soviet Union.

The result of our virtually no exceptions policy is to cut off U.S. high technology exports to the U.S.S.R., which, in 1979, were valued at $50 million, largely related to computers.

We have also increased controls on computers, on polycrystalline silicon, on lasers, and on fiber optics. We have stopped shipments of spare parts for computers and of a diesel engine assembly line for the Kama River truck plant.

We have tabled proposals in CoCom, the organization for multilateral restrictions on sales to the Soviet Union, in order to multilateralize these tighter controls imposed by the United States.

CoCom's review of these proposals has not yet been completed. The actions we have taken in the area of high technology had their impact on the Soviets. They will disrupt Soviet programs. They also introduce serious uncertainties in the Soviet planning at a time when the next 5-year plan is in the final stages of elaboration.

An additional economic measure which we took was to withhold from the Soviets the allocation of approximately 300 million tons of fish in the U.S. fishery zone during 1980. This amounts to roughly 5 percent of the Soviet annual catch, and it will be difficult to replace because of worldwide scarcities.

Where do we go from here? We believe it is essential that we and our allies maintain pressure on the Soviets to let them know they cannot selectively carry out a policy of reduced tensions in one sphere, beneficial to them, while they commit naked acts of aggression elsewhere.

We will continue to insist upon a satisfactory political resolution of the crisis which the Soviets have created through their intervention in Afghanistan.

As Secretary Muskie noted last month, we believe that a political settlement must contain four essential elements: A prompt and complete withdrawal of Soviet forces, nonintervention in Afghan affairs by any outside state, a government acceptable to the Afghan people, and an independent and nonalined Afghanistan.

Until the Soviets make it clear that they are prepared to move in this direction, we cannot relax our efforts.

Thank you, Mr. Chairman.

[The complete statement follows:]

STATEMENT BY RICHARD N. COOPER, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS

I am happy to have the opportunity to appear before this Committee. As you have requested, I will review Soviet actions in Afghanistan and the responses that the United States and its allies have taken to this aggression. I would like to begin with a brief status report on the current level of Soviet involvement in Afghanistan.

Almost eight months have passed since Soviet forces invaded the non-aligned nation of Afghanistan in December 1979. Since that time the U.S.S.R. has increased the level of its occupation forces in an effort to quell the nationwide resistance of the Afghan people. The Soviet aggression has caused great suffering for the people of Afghanistan. It has resulted in over 1 million Afghans—about 7 percent of the total population—seeking refuge outside their country. Fierce resistance to the Soviet occupation continues. The U.S.S.R. has failed in its efforts to establish effective control over the country. Its attempts to obtain recognition for the puppet regime of Babrak Karmal have been rebuffed by the overwhelming majority of the international community.

The United States continues to regard the Soviet action as a blatant violation of the rules of international conduct and a serious threat to world peace. The presence of Soviet forces in Afghanistan continues to pose a threat to other countries of Southwest Asia and to our own interests in the region.

The United States had to respond vigorously to this provocative Soviet step. Failure on our part to react would only encourage new adventures and risk miscalculation. Also, failure to react would have baffled and distressed many countries in the area, and would have undermined our position there and elsewhere. Our policy has been to take a number of firm and highly visible steps which express our feelings to the Soviets in the clearest possible manner. We intend to continue to do what we can to convince the U.S.S.R. to withdraw its forces from Afghanistan, and to reduce the possibility that they will be tempted to undertake similar adventures in the future.

I would now like to describe the actions we have taken.

Militarily we have accelerated our efforts to increase our strategic capabilities, including plans for the establishment of a Rapid Deployment Force sufficiently large and mobile to deter possible Soviet aggression in critical areas such as the Middle East. We have increased our naval presence in the Indian Ocean and are rapidly proceeding with plans to expand our facilities in Diego Garcia.

We have concluded agreements with friendly governments in the area which will increase their capacity to resist Soviet pressure. Some of these agreements will provide us access to facilities that will significantly improve our ability to respond quickly and effectively to provocative actions.

Our response has not occurred in a vacuum. On the diplomatic front we have worked closely with our allies and with other nations concerned by the invasion. No action by a major power has been more quickly or universally condemned, as votes in the U.N., the European Community, the Islamic Conference, and numerous other international bodies testify. Any hopes Moscow may have had that the international community would shrug off the invasion have been shattered.

We boycotted the Moscow Olympics and helped to persuade 59 other countries to take similar action. Countries joining in the boycott included major sports powers such as West Germany, Japan, Canada, and the People's Republic of China. Many participating teams were diluted by individual and federation decisions not to attend. The sweep of medals by the Warsaw Pact countries illustrates the extent to which outstanding Olympic teams from all continents supported the boycott.

Economically we took a number of measures in areas intended to result in substantial costs and disruptions for the U.S.S.R.. These included restrictions on exports of grain and other agricultural commodities, phosphates, goods for the Olympics, and high technology items. It is of course obvious that any interference with trade would involve costs for the exporting country as well as for the importing country. But under the circumstances it was inappropriate to maintain business as usual.

Some of our actions were clearly punitive in character and intention—designed to get the Soviets to take notice of the strong negative reaction of the United States and other countries. Other actions were a longer term response to a new situation. The Soviet invasion makes it most important that the United States and its allies bolster the countries of Southwest Asia, especially Turkey and Pakistan, and increase the capability of our military forces in the Region. We must also reassess the strategic significance of our exports to the U.S.S.R. In this context we have proposed tightening the application of CoCom procedures and suggested that CoCom consult on all major process know-how sales of potential military significance.

We believe that our actions have demonstrated to the Soviets that they cannot engage in aggressive actions with impunity. The U.S. has shown that it is willing to assume a leadership role among our allies and make sacrifices when we are provoked. This demonstration of our readiness to react will help deter future Soviet aggression.

In formulating our response we chose specific measures such as the restrictions on the export of grain and high technology which would impose tangible costs upon the Soviets. We have deliberately avoided sweeping measures such as a total trade embargo. We do not seek a return to the Cold War. We wish to leave the door open for rebuilding our economic relations if the Soviet Union withdraws from Afghanistan.

GRAIN

The partial grain embargo announced by President Carter on January 4 stopped 17 million tons in U.S. grain shipments to the Soviet Union. This action limited exports during the forth year of the U.S.-U.S.S.R. grains agreement (October 1979/September 1980) to the 8 million tons to which we were committed by that agreement. To compensate for a disastrous harvest, the Soviets had expected to import about 36 million tons, including 25 million tons from the United States. The President also prohibited sales of soybeans and of other agricultural commodities which would contribute to the Soviet livestock sector.

We estimate that, because of our action, grain imports by the Soviets will be about 8–9 million metric tons less than they had planned for the year ending September 30. This means that by October the Soviets will have made up only about half of the 17 million metric tons we stopped from the United States. Our actions have forced the Soviets to rely on an unpredictable variety of feed grains and substitutes arriving on an irregular schedule. As a result of our restrictions and their poor harvest we expect Soviet meat production in 1980 to drop by 200,000–300,000 tons or 1–2 percent below the 1979 level. By January 1981 livestock inventories may be down 2–3 percent. Even though the Soviets will have an improved grain crop this year—we now estimate an average harvest of between 200–225 million tons—the continuation of the embargo will curtail Soviet ability to rebuild depleted grain stocks and will make its impact felt on the livestock sector for several years to come. The availability of meat is a very sensitive internal issue in the U.S.S.R. and is considered by Soviet consumer to be one of the most important measuring sticks in gauging improvements in their standard of living. Despite Soviet government promises of a steady increase, per capita consumption has not risen during the past five years. Our partial grains embargo has made it still more difficult for the Soviet leadership to fulfill promises of significant increases in meat availability to Soviet consumers. Reports have been growing of severe meat and dairy product shortages. News reports attributed work stoppages in May at auto and truck plants in the Soviet Union to food shortages.

In addition to its effects on the Soviet economy, the partial grains embargo has proved to be a successful example of Allied cooperation in response to the invasion of Afghanistan. Canada, Australia and the European Community all imposed restraints on their sales to the U.S.S.R., despite serious opposition by some segments of their populations. Australia and the European Community recently agreed to hold 1980/81 grain sales to the U.S.S.R. to the 1979/80 level, while Canada will limit sales to "normal and traditional" levels. Argentina's exports increased to 5.1 million metric tons in 1979/80, as compared to 1.3 million tons in 1978/79. Argentina has agreed to supply the Soviets with 4.5 million metric tons of coarse grains and soybeans under the terms of a recently concluded five-year agreement. But Argentine sales have not been large enough to offset restraints imposed by the U.S. and other exporters.

PHOSPHATES

In February we blocked exports to the U.S.S.R. of U.S. origin phosphates, whether in the form of rock, acid, or fertilizer. The phosphate embargo stopped annual U.S. shipments to the U.S.S.R. of about 1,000,000 tons of superphosphoric acid as part of a major 20-year trade agreement, inability to obtain this phosphoric acid will delay and disrupt Soviet plans to produce a complex liquid fertilizer, since there is no alternative supply for this quantity of superphosphoric acid. Utilization of lower grades of phosphoric acid or conventional phosphoratic fertilizers, either from Soviet or foreign sources, could reduce the impact of our embargo. It is too early to see what effect this restriction will have on future Soviet grain output.

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HIGH TECHNOLOGY

In January, in the area of high technology we suspended issuance of new licenses, and shipments to the Soviet Union under old licenses, pending the development of a new licensing policy. The most important element of the new policy, which was announced on March 19, is generally to approve no exceptions from agreed CoCom controls on exports to the U.S.S.R. The result of our virtually no-exceptions policy is to cut off U.S. high technology exports to the U.S.S.R. which, for 1979, were valued at $50 million, in large part related to computers. We also increased controls on computers, polycrystalline silicon, lasers, and fiber optics and stopped shipments of spare parts for a computer and of a diesel engine assembly line for the Kama River truck plant.

We tabled proposals in CoCom in March to multilateralize tighter controls on high technology. CoCom review of these proposals has not yet been completed.

The actions we have taken in the area of high technology transfer have had their impact on the Soviets. They will disrupt Soviet programs. They have also introducted serious uncertainties into the Soviet planning process at a time when the next five-year plan is in the final stages of elaboration.

An additional economic measure we have taken has been to withhold from the Soviets the allocation of approximately 300 million tons of fish in the U.S. fishery zone during 1980. This amounts to roughly 5 percent of the Soviet annual catch, which will be difficult to replace because of worldwide scarcities.

Where do we go from here? We believe it is essential that we and our allies maintain pressure on the Soviets to let them know they cannot selectively carry out a policy of reduced tensions in one sphere, beneficial to them, while they commit naked acts of aggression in another. We will continue to insist upon a satisfactory political resolution of the crisis which the Soviets have created through their intervention in Afghanistan. As Secretary Muskie noted last month, we believe that a political settlement must contain four essential elements:

A prompt and complete withdrawal of all Soviet forces
Non intervention in Afghan affairs by any outside state
A Government acceptable to the Afghan people
An independent and non-aligned Afghanistan.

Until the Soviets make it clear that they are prepared to move in this directon we cannot relax our efforts.

The CHAIRMAN. Thank you very much, Secretary Cooper.

Mr. Moyer, could you confine your remarks to about 5 or 6 minutes?

STATEMENT OF HOMER E. MOYER, JR., GENERAL COUNSEL, DEPARTMENT OF COMMERCE

Mr. MOYER. I'd be happy to, Mr. Chairman. I'm pleased to be here this morning.

At the committee's request, my written testimony covers the Commerce Department's——

The CHAIRMAN. We'll have that printed in full in the record.

Mr. MOYER. Thank you, Mr. Chairman.

The Commerce Department's administering the restrictions on exports to the Soviet Union. It reviews the imposition of agricultural export restrictions, the imposition of other economic sanctions on the Soviet Union, our enforcement experience and assessment, and finally, as your letter of invitation specifically requested, the effect of the export restrictions on U.S. trade.

I shall not repeat the chronology of the actions taken with respect to agricultural exports. That is covered in my statement.

My statement further discusses briefly our compliance experience and efforts with respect to the agricultural controls and, Mr. Chairman, it summarizes the other steps that we have taken in imposing export restrictions against the Soviet Union.

That includes actions taken with respect to high technology and other strategic items in January, including the denial of specific export license applications, a general review of our export licensing policy, and a suspension of all export license actions, as of early January.

It also includes specifically the revocation of export licenses for spare computer parts destined for the Soviet Union's Kama River truck plant.

The actions taken imposed an embargo on the export of phosphates which has been alluded to earlier. The actions taken in March embargoed exports to the Soviet Union of products or technology to be used in connection with the Summer Olympics.

Regulations promulgated in May imposed new validated export licensing requirements for certain lasers, silicon materials, semiconductors and surface finishing equipment.

And, finally, on May 6, action was taken to impose validated license requirements on the export of truck engine assembly line equipment for the Kama River truck plant.

With respect to the impact on trade, the U.S. restrictions have, of course, had an effect on United State-Soviet trade.

The 1979 U.S. exports to the Soviet Union totaled 3.6 billion, of which 2.9 billion was agricultural and 750 million was nonagricultural.

Of that 750 million, only about 200 million consisted of goods requiring validated export licenses.

Prior to the imposition of controls on grain and high technology exports, total U.S. exports to the Soviet Union for 1980 were projected to be 4.8 billion, of which 3.9 billion was expected to be agricultural and 900 million nonagricultural.

Total exports to the Soviet Union for 1980 are now projected to be 1.3 billion, of which 1 billion is expected to be agricultural.

With that summary, Mr. Chairman, let me submit the remainder of my testimony for the record.

[Complete statement follows:]

STATEMENT BY HOMER E. MOYER, JR., GENERAL COUNSEL, DEPARTMENT OF COMMERCE

Thank you, Mr. Chairman. My testimony this morning will cover the Commerce Department's role in administering restrictions on exports to the Soviet Union. I shall review the imposition of these agricultural restrictions and how they subsequently were refined; the imposition of other economic sanctions on the Soviet Union; our enforcement experience and assessment; and finally, as your letter of invitation specifically requested, the effect of the export restrictions on U.S. trade.

AGRICULTURAL CONTROLS

On January 4, 1980, President Carter announced that 17 million tons of grain ordered by the Soviets in excess of that amount which we were committed to sell under the U.S.-U.S.S.R. Agreement on the Supply of Grain would not be delivered. The regulations implementing the President's policy, published on January 9, 1980, prohibited the export from the U.S. and the reexport from foreign countries to the U.S.S.R. of all U.S.-origin acricultural commodites. The only exception was the U.S. obligation under the terms of the U.S.-U.S.S.R. Agreement to export 8 million metric of wheat and corn to the Soviet Union. Grain in the process of being loaced when the restrictions became effective at midnight, January 7, was allowed to go forward provided the export had cleared port within 48 hours.

As of January 9, approximately 5.5 million metric tons of the 8 million provided for in the agreement had already been shipped. Commerce, working closely with the Department of Agriculture, allocated the remmaining 2.5 million tons among U.S. exporters in proportion to the size of each exporter's total sales in the fourth agreement year, less any amount shipped. Such contracts were a matter of record because exporters are required to report them to the Department of Agriculture as part of that Department's Export Sales Reporting Program. Exporters applying for licenses were instructed to attach to their applications (1) a copy of their export sales contract, (2) a copy of the "onward" contract indicating the grain's ultimate destination if the export sale was to an intermediate party, and (3) an affidavit as

the amount of grain they had already shipped against their contracts. Commerce verfied all quantities involved with the Department of Agriculture.

The regulations issued on January 9 to implement the President's announcement suspended the export of all "agricultural commodities and products." A number of commodities covered by these regulations, however, were not essential to achieving the objective of having an impact on the Soviet grain/livestock complex. For example, logs are classified as "agricultural commodities" under the Census Bureau's classification of commodities, yet they have no connection with the Soviet grain/livestock complex that was the focus of the President's directive. Accordingly, on February 7, 1980, after extensive consultations with the Agriculture Department and the Office of the United States Trade Representative, the Commerce Department issued revised regulations that established three categories of agricultural commodities:

Category 1 includes commodities unrelated to the Soviet grain/livestock complex (e.g., wood products, sugar, tobacco). These may be shipped under general license. The exporter is only required to send Commerce a copy of his Shippers Export Declaration (SED) after shipment.

Category 2 includes commodities directly related to the Soviet grain/livestock complex (e.g., grain and other animal feeds, meat, dairy products). Their export is subject to validated license requirements and is restricted. No licenses have been issued for commodities in this category except for wheat and corn up to the quantity provided for in the U.S.-U.S.S.R. Grain Agreement.

Category 3 includes commodities (e.g., live animals, hides and skins, leather) still subject to validated license requirements and a case-by-case determination on the basis of such factors as whether the item proposed for export has historically been exported to the U.S.S.R.; whether the quantity is reasonable in light of normal trade patterns; whether it is appropriate to the stated end use; whether it is likely to be diverted to another end use; and if so, whether such diversion would undermine the intent of U.S. restrictions on items in category 2.

On June 3, 1980, regulations were issued extending the validated licensing requirement to exports of category 2 and 3 agricultural commodities to Afghanistan to ensure that the agricultural restrictions on exports to the U.S.S.R. are not subverted by diversions through Afghanistan. Under these regulations, proposed exports of category 2 and 3 commodities to Afghanistan are reviewed on a case-by-case basis and are approved if the Department is satisfied that they are destined for consumption by the Afghan civilian economy.

The fifth and final year of the U.S.-U.S.S.R. Grain Agreement begins on October 1, 1980. Regulations were published on July 8, 1980, to cover agricultural exports to the U.S.S.R. during that fifth year. Once again, the U.S. will permit the export of up to 8 million metric tons of wheat and corn to fulfill the terms of the Agreement. Licenses will be issued in the order that the license applications are physically received by the Short Supply Division of Commerce's Office of Export Administration. Any export sale covered by a license application must first have been reported to the Department of Agriculture to qualify for Commerce Department consideration. The applicant has 45 days after the filing of his application to submit the required support documentation, i.e., his registered export sales contract, and, if the sale is to an intermediate party, proof of the "onward" contract with a Soviet foreign trade organization. Whereas during the fourth year of the Agreement, we allowed exporters to apportion their allocations as they wished between wheat and corn, no more than 5 million tons of either wheat or corn will be licensed during the fifth year.

COMPLIANCE

The Compliance Division of the Office of Export Administration is responsible for enforcing the U.S. Government's restrictions on agricultural exports to the U.S.S.R. A violation could take the form of an illegal diversion to an unauthorized destination, an unauthorized (unlicensed) export from the United States, an unlawful transshipment through a third country, or an overshipment beyond authorized tonnages. Whenever the Compliance Division develops information that suggests a possible violation or receives an allegation that a violation of the embargo has occurred, it initiates an investigation and opens a new case. The Division also monitors numerous trade and intelligence reports on grain trade and shipping patterns worldwide, and conducts spot checks on grain shipments moving to major overseas transshipment points.

Since the imposition of the embargo, the Division has opened 13 new cases. Six have been closed either because the allegation was found to be baseless or because the evidence produced was insufficient to prove a violation. Seven remain under investigation. However, we have no information and have received no allegations

that indicate any large scale illegal shipments of grain directly from the U.S. to the U.S.S.R.

We are confident that the Compliance Division would quickly become aware of any large scale diversions or transshipments in violation of the grain embargo. The number of U.S. firms engaged in this trade is quite small—less than two dozen. The firms are extremely competitive and it has been our experience that each monitors the others' activities closely. Should one engage in diversion or transshipment to the U.S.S.R., that fact would swiftly become known to the others. Indeed, it is highly likely that one of the offending firm's competitors would make it a point of bringing the matter to the Compliance Division's attention. Our spot checks of grain vessels and other monitoring activities, combined with the small size and intensely competitive nature of the U.S. grain trade, make us confident that no significant violations of the embargo are going undetected.

OTHER RESTRICTIONS

In addition to controls on agricultural exports, the United States has taken economic measures to restrict the export of non-agricultural commodities to the Soviet Union. Briefly, these are as follows:

On January 4, the President announced that in addition to new restrictions on agricultural exports to the Soviet Union, the United States would place new restrictions on exports of high technology and other strategic items to the U.S.S.R.

On January 8, the President forwarded to the Secretary of Commerce a directive to review and revise our policy with respect to the export of high technology and other strategic items to the Soviet Union. Pending completion of that review, no further validated export licenses were to be issued to the Soviet Union. Where validated licenses had already been issued, but shipment had not yet occurred, the licenses were to be reviewed to determine whether they should be suspended or revoked. In addition, certain transactions under general license requirements were to be reviewed to determine whether they should be made subject to validated licensing.

On January 9, the President directed the Secretary of Commerce immediately to suspend all outstanding validated licenses to the Soviet Union and to freeze all shipments under those licenses pending completion of the review of U.S. export policy towards the U.S.S.R.

On January 11, the Commerce Department issued a General Order suspending all outstanding validated licenses to the Soviet Union, and announced the suspension of issuance of new licenses pending completion of the review. On that date the Commerce Department also denied eight export license applications covering various high technology items for shipment to the Soviet Union. The applications denied covered products with potential military applications such as yarns used for ballistic protection and high-strength military structures; digital computing systems and peripheral enchancements for Soviet computers; seismic data processing equipment; research equipment used in the development of microwave semiconductors; and technical data and equipment for a telecommunications plant. Finally, an interagency review committee was convened on January 11, under the chairmanship of the Secretary of Commerce, to conduct the review directed by the President of U.S. export policy towards the Soviet Union.

On January 19, the Commerce Department directly notified all exporters known to have outstanding validated licenses for export to the Soviet Union that these licenses had been suspended and should be returned to the Commerce Department by January 26.

On January 21, the Commerce Department revoked all licenses for the export of spare computer parts for the Soviet Union's Kama River truck plant.

On February 4, Commerce issued regulations placing phosphate rock, phosphoric acid and phosphatic fertilizers of all concentrations under validated license requirements and suspending the issuance of any export licenses for these commodities pending completion of the review of U.S. export policy.

On February 25, the Commerce Department, pursuant to a directive by the President, ordered an embargo for an indefinite period on shipments to the U.S.S.R. of phosphate rock, phosphoric acid and phosphatic fertilizers of all concentrations.

On March 13, the Commerce Department announced that President Carter was asking all U.S. companies to cooperate with his call for U.S. non-participation in the 1980 summer Olympics in Moscow by voluntarily refraining from exporting products relating to the Olympics.

On March 18, the Commerce Department announced that the export policy review had been completed and that the President had decided that more restrictive criteria would be applied to control exports to te U.S.S.R. The new guidelines imposed tighter controls in such areas as computers and software, manufacturing

technology and materials critical to the manufacture of high technology defense goods.

On March 28, the Commerce Department imposed an embargo on exports to the U.S.S.R. of any goods or technology in connection with the 1980 Summer Olympics in Moscow and on payments or transactions involving such exports which could provide financial support for the Olympics.

On May 5, the Commerce Department announced new validated export licensing requirements for certain lasers, silicon materials, silicon deposition equipment and semiconductor sawing and surface finishing equipment. In addition, national security licensing policies affecting communications equipment and seismic recorders that already required validated licenses were changed.

On May 6, the Commerce Department imposed validated license requirements on the export of truck engine assembly line equipment for the Kama River truck plant.

On June 3, the Commerce Department applied the foregoing policies on exports of commodities and technical data to Afghanistan in view of the increased risk of diversion to the U.S.S.R. In general, approvals for applications subject top national security controls will be granted only if approval would be granted for an export directly to the U.S.S.R. Applications subject to foreign policy controls will be approved if they are for the civilian economy of Afghanistan. Shipments of items in those Commodity Control List entries requiring a validated license specifically to the U.S.S.R. may no longer be made under General License.

The success of our export control measures, of course, depends significantly upon the degree to which other supplier nations support us by limiting their own exports of similar commodities to the Soviet Union. In an effort to engage such support, we have asked other governments not to increase their own agriculutral exports to the U.S.S.R. to replace the supplies we are denying the Soviets. We have also put forward proposals in CoCom in March that would institute multilateral controls similar to U.S. unilateral controls on high technology exports to the Soviet Union. Our CoCom partners are now in the process of reviewing the U.S. proposals.

Our controls have precluded the shipment of a broad range of sophisticated technical and strategic goods to the Soviet Union. Our no-exceptions policy in CoCom has cut off much of our computer related exports. The result has been effectively to impede and delay Soviet access to certain advanced products and capital goods. The restrictions have caused the Soviets delays in their planning and construction schedules, for major and minor projects. Both disruptions and uncertainties have been introduced into the Soviet planning process.

IMPACT ON TRADE

The U.S. restrictions have of course had an effect on U.S.-U.S.S.R. trade. In 1979, U.S. exports to the Soviet Union totaled $3.6 billion, of which $2.9 billion was agricultural and $749 million was non-agricultural. (Of the $749 million, only about $200 million represented high technology items for which validated licenses were required.)

Prior to the imposition of the controls on grain and high technology exports, total U.S. exports to the U.S.S.R. for 1980 were projected to be $4.8 billion, of which $3.9 billion was expected to be agricultural and $900 million non-agricultural. Total exports to the U.S.S.R. for 1980 are now projected to be $1.3 billion, of which $1 billion is expected to be agricultural and $300 million non-agricultural.

Total exports to the U.S.S.R. for the period January through May 1980 totaled $643 million, of which $490 million was agricultural and $153 millions non-agricultural. This compares with the total of $1.1 billion in exports to the U.S.S.R. during the same period in 1979, of which $785 million was agricultural.

Prior to the imposition of the controls on grains, total U.S. grain exports in the 1979–1980 marketing year were expected to total approximately 109 million metric tons; the latest estimate is for 108 million metric tons, i.e., almost exactly the same level as the pre-embargo estimate and 17 percent higher than the previous marketing year.

Overall U.S. exports of phosphates have remained stable. Only in 1979 did the Soviet Union become a major market for U.S. phosphates—primarily superphosphoric acid, or "SPA," which in 1979 accounted for 98 percent of all U.S. phosphate exports to the U.S.S.R. Current trade figures show that total U.S. exports of SPA have been running at the same rate for the period January through May 1980 as they did during the same period in 1979—indeed, they are even up very slightly. Moreover, the dollar value of these exports is up quite sharply: approximately 32 percent over 1979 levels. These figures indicate that SPA originally destined for the U.S.S.R. is being absorbed by other markets.

The U.S. restrictions on exports in support of the Moscow Olympics affected about 20 U.S. companies and barred approximately $15–20 million in exports. The number

of U.S. citizens traveling to Moscow for the Games was also reduced. Prior to the impositon of the U.S. boycott, approximately 10,000 U.S. travelers are known to have made deposits against their travel expenses and the total number of U.S. travelers was expected to be between 15,000 and 18,000. In the event, less than 1000 individuals actually went to Moscow for the occasion. Originally, a total of 80,000–100,000 Western visitors were expected to attend the Games. In the event, only about 35,000 Western visitors actually went to Moscow.

That concludes my prepared statement. Mr. Chairman. I shall be happy to answer any questions you may have.

The CHAIRMAN. We appreciate that very much, Mr. Moyer.

Secretary Bergland, as I understand your testimony, you say that this embargo has been effective in reducing meat consumption and meat production in the Soviet Union. In doing so, it has had some effect, you didn't say this, but we've gotten it from other sources, and I want to know whether or not you agree with this.

It has had some effect in increasing dissatisfaction in the Soviet Union and in contributing to strikes at automobile plants in the Soviet Union, is that right?

Secretary BERGLAND. Yes, sir, that's correct.

The CHAIRMAN. Now, you also argued it has had little effect on our economy. You say that about one-half of 1 percent, as I understand, reduction in gross agricultural receipts, is that right?

That, of course, could result in a much bigger reduction in net income for the farmer, is that right?

Secretary BERGLAND. No, Mr. Chairman, not enough to measure.

The CHAIRMAN. Is that right?

Secretary BERGLAND. I would argue that economics is a rather dismal science and all you can do is guess. My guess is it would have had some negative impact on the price, but nothing compared to the devastating impact brought on by the recordbreaking crops from last year.

The CHAIRMAN. That may well be, but I'm trying to measure what it was. Would one-half of 1 percent, which is the reduction in receipts, also measure to some extent the reduction in net agricultural income?

Secretary BERGLAND. It cuts both ways. While it would be a reduction of income to grain growers, it would have beneficial impact on the lifestock sector.

EFFECT ON GRAIN GROWERS

The CHAIRMAN. I realize that. Can you tell us what the effect would be on grain growers?

Secretary BERGLAND. May I yield to Howard Hjort, who has the numbers?

The CHAIRMAN. Yes. Go right ahead.

Mr. HJORT. The difference in net farm income, according to the best guesses that can be made, would be that the decrease that we're observing this year might be as much as 1 percent greater.

The CHAIRMAN. 1 percent net. But my question was, as far as the grain farmers are concerned, the corn and wheat farmers, what would be the effect on them?

Obviously, if you have a dairy farm and you don't grow your own feed, it might be helpful. If you have a dairy farm and grow your own feed, it might not have any effect. If you have a dairy farm and sell some feed, it would hurt you.

Mr. HJORT. Essentially all of the decrease, that minor decrease, would be with grain producers and primarily with feed grain producers because that was the major commodity effected.

The CHAIRMAN. Now, the effect on the price of food to the consumer in this country, you say, was about one-tenth of 1 percent reduction in your best estimate.

Is that right?

Secretary BERGLAND. That's the best guess we can make, yes, sir.

The CHAIRMAN. Do you think that's likely to continue as long as the embargo is in effect?

Secretary BERGLAND. No, sir. The effect of that has clearly been washed through the system.

The CHAIRMAN. One time and that's it?

Secretary BERGLAND. One time and that's it. Because grain prices and all agricultural prices have strengthened substantially from the low point in January.

The CHAIRMAN. Secretary Hathaway, how do you respond to the argument we've heard that low meat production in May and June in the Soviet Union is contrary to what would be expected if the embargo really were causing the Russians to cull their herds? By culling their herd, they obviously produce more meat during that culling period, and that should continue, not just for January and February, but further into the year.

Mr. HATHAWAY. No, in fact, I think, Mr. Chairman, it would be entirely consistent. In fact, there is evidence that they were culling and marketing at lighter weights earlier in the year. That was why the production decline did not show up earlier.

If you go back to my earlier testimony before this committee, I think that you will see that we projected that meat production would fall starting in the second quarter, not the first quarter, and that they would cut back milk production early, which they did. We expected the Soviets would market at lighter weights to get the animals out of the system and then, at that point, you would start to see a really marked decline in meat production.

This appears to be quite consistent with what's happened.

The CHAIRMAN. And the figures the Secretary gave us this morning for July would seem to confirm that there's an even deeper loss as the year goes on.

At least in July, with a 15-percent reduction in meat production, is that right, compared to 11 percent in June, compared to only a 3-percent reduction in January through June?

Mr. HATHAWAY. Yes. That would be the case, and given the fact that their own harvest is substantially later than normal this year, without predicting their statistics, this large decline in meat production probably will last a little longer than anticipated because they have been unusually late in getting their own production into place, at a time when the grain supply from outside has been the lowest.

The CHAIRMAN. Can you give us any estimate as to how much the embargo has contributed to that and how much other factors, weather and so forth, have been the principal factor in that sharp reduction in meat production?

Mr. HATHAWAY. We would doubt that weather would have the major effect on it. Obviously, their fodder production was also a

factor that may have contributed early on because of the bad harvest last year.

The CHAIRMAN. Let me just ask how much would the embargo contribute to it?

Mr. HATHAWAY. I would think that it would be a major contributor.

The CHAIRMAN. One-half of that reduction? More that half of the reduction?

Mr. HATHAWAY. I would think so, yes.

The CHAIRMAN. You saw the spectacular and very clever device used by Senator Dole and Senator Tower in dramatizing that this means nothing to the Soviet Union, a Big Mac.

Incidentally, it would probably take two Big Macs, because a Big Mac is no quarter-pounder. [Laughter.]

The CHAIRMAN. We've weighed it, and it's a lot less than that. It's actually about half of that.

At any rate, what's your answer to the notion that this would just be insignificant, just a hamburger or two less a month?

Would you agree that they may be right on their figures, if so, then what effect, really, is this embargo having?

Mr. HATHAWAY. I think Mr. Hjort has some figures that might be useful in that regard, Mr. Chairman.

The CHAIRMAN. All right.

Mr. HJORT. The decrease of 3 percent of meat production in the Soviet Union can, in a way, be compared to what is happening in the United States. The decrease in our meat production, from the second quarter to the third quarter that's taken place at the present time, is about 3 percent.

In response to that, beef prices have increased about 10 percent, pork prices about 35 percent, poultry prices about 25 percent. In the Soviet system, of course, it's not handled in that way.

MEAT RATIONING

What they have to do is ration it and restrict it. And the answer we get back in terms of the impact on the Soviet Union are the reports that you've already referred to: unprecedented strikes, worker unrest, and so forth.

The CHAIRMAN. So that the reduction you estimate is about 3 percent in the consumption of meat, is that right?

Mr. HJORT. The Soviets themselves report that their meat production is down 3 percent.

The CHAIRMAN. Because, in spite of the fact that it's a Communist system, they also ration their meat on a price basis.

Mr. HJORT. They do not ration it on a price basis. Their alternative is to restrict quantity. That leads to shortages in the stores, the availability of meat has been extremely tight. That, in turn, has led to worker unrest and unprecedented strike activity.

The CHAIRMAN. Do you think that this worker unrest and strike activity is due to a drop of only one-quarter of a pound of meat per capita per month, or is that figure wrong?

Mr. HJORT. That figure is wrong. According to the Soviets' own figures, it would be wrong.

Secretary BERGLAND. Mr. Chairman, the Russians don't have a very sophisticated system of allocating the shortage. It's first-come, first-served. And they line up.

I've seen those lines, it's embarrassing to them and they'd rather not have it. But it's a crude device and their consumers react.

Senator GARN. One question.

Sir, when did we start trusting Soviet figures on anything? I mean, if you want to call DIA, and the Department of Agriculture, good heavens, do not insult my intelligence by using the Soviets' own estimates.

Secretary BERGLAND. We think, Mr. Garn, that if the Soviets admit a 15-percent reduction in output of meat in July, the situation is at least that bad, and could be worse.

The CHAIRMAN. Now, let me ask first Mr. Hathaway and then Mr. Moyer this. Have you identified any instances in which U.S. grain has been transshipped to the Soviet Union? That is, instances in which the final destination was Russia although some other destination was indicated when the grain left the United States. If so, what steps have you taken to prevent that?

Mr. HATHAWAY. That particular action is under Commerce's jurisdiction, so Mr. Moyer will give the final answer.

But despite all the rumors to the contrary, the answer, in general, is "No."

Mr. MOYER. Mr. Chairman since the embargo was initiated we have begun just under 15 investigations of possible violations. Of those, approximately seven remain open. The others have indicated either no basis for the allegation or the evidence produced was insufficient to show any violation. Of the seven investigations that are continuing, however, there is no information that has been developed, nor are there allegations to the effect that direct shipments took place from the United States to the Soviet Union.

The CHAIRMAN. That may be a satisfactory response or not, depending on how effective your information is. But there may be hundreds—not just 15—but hundreds of violations that aren't reported. What can you tell us about that?

Mr. MOYER. We, of course, never can establish in any enforcement activity definitively what we do not know. Having said that, we are quite confident with respect to the grain enforcement, in that we are dealing with a limited number of exporters. We are dealing with a highly competitive situation in which most exporters are aware in great detail of the activities of other exporters, and we have other sources of information which we feel are quite reliable.

In the grain situation, the question of additional sources of grain from the Soviet Union has, in a word, appeared to be not so much an issue of violations of the embargo or illegal diversions, but acquisitions from other sources as have been discussed earlier.

The CHAIRMAN. My time is up.

Senator Garn.

Senator GARN. Secretary Bergland, I said at the outset of this that I was an unqualified supporter of all of these actions in January. I so stated in the press, and I defended that position against a lot of people who were critical of it. So my turnabout has come on the basis of its effectiveness.

One of the reasons that I have problems are all of the differences in statements over a period of months on what the effect of the grain embargo would be. The USDA's estimates have changed consistently. On January 13 and 16, you stated that Soviet meat production would be down 5 to 8 percent. In early July the USDA stated meat production would drop by only six-tenths of 1 percent. The President said 20 percent on January 8. Undersecretary Hathaway, testifying to our International Finance Subcommittee, said 4 percent.

WHOSE FIGURES DO WE TRUST?

Whose figures do we trust? I am certainly not going to trust the Soviet's. But we have had so many different figures within your own Department, that we cannot be certain that Soviet meat production has gone down.

Secretary BERGLAND. Senator, the evidence will argue that the situation for the Russians is worsening. It's worse in July by five times than it was in January. It's taken that long for the livestock cycles to work through the system. We think that as long as we keep restraints on, that the Russians will feel the heat.

Senator GARN. But your estimates are lower now in July than they were 5 or 6 months ago.

Secretary BERGLAND. Down 15 percent in July; down 11 percent in June; down less——

Senator GARN. Where does the six-tenths of 1 percent come from that USDA mentioned in early July?

Secretary BERGLAND. I don't know what that number is, Senator.

Senator GARN. That is the reduction in Soviet meat production as reported by the USDA. That is the point I am trying to get at. There are so many different figures coming out of your own Department that I don't know what to rely on.

Secretary BERGLAND. Our numbers show, Senator, that each month it gets worse.

The CHAIRMAN. If the Senator would yield.

It's my understanding that you told us here—you corrected your prepared statement that Senator is reading from, the July figures. The July figures you gave us were 15 percent. That was just found out this morning; is that right?

Secretary BERGLAND. That's right; yes, sir.

Senator GARN. My point is, again, in early July USDA was saying six-tenths of 1 percent. Now it's 15 and 20 percent. In January, it was 5 to 8 percent. My point is that I am not sure anyone in the administration really knows how much Soviet meat production has dropped.

Mr. HJORT. If I could give a partial clarification. The comparison that you're referring to in early July is very likely the estimate of about 15.3 million tons of meat production in 1980 compared to 15.5 last year. That is a comparison with last year. If the suspension had not taken place, as the Secretary's statement also says, we would have expected that they would have fed more to their animals and their meat production would have actually increased this year.

So some of these statements are referring to the impact of the suspension. This one that you're quoting is referring to a compari-

son of what the current estimate is compared with last year. It's not the same as the impact of the suspension.

Senator GARN. My point is that there has still been a large number of different figures coming out of the USDA and the President since January. Also, I am not a farmer. I have had no experience, except in the dairy business when I was much younger. But I find it hard to believe, whatever the figures you and the Chairman are reciting concerning Soviet meat production. Since January, when you announced the embargo, that you have discounted bad weather, crop failures, and these sort of things, and say that the majority of the effect on meat production is due to the embargo. I realize it takes months for grain shipments to be made, and obviously the longer term effect may be greater.

I can not believe that it has had time to have that much effect yet. I know a little bit about how long it takes from watching the ups and downs of U.S. prices and our own cattle production and so forth. I think there is some exaggeration, even if all the figures we accept in the Soviet Union are correct, that the embargo has had that much effect yet. Certainly, a majority——

Mr. HATHAWAY. Senator, I would like to comment. In order to understand this, you needed to look at the shipping schedules for U.S. grain. For all practical purposes, the bulk of the grain that was suspended was, in fact, expected to be shipped prior to the end of June. Thus, during this very crucial period in which they had no pasture available, there was created by this action a very substantial gap in the flows of grain, and that is why the decline in meat production shows up with some timelag in the rather substantial figures for June and July.

You would not expect it to show up early, because the grain was already on the seas and went into the system. But the statistics that we are now receiving are entirely consistent with the shipping patterns that were on those contracts, and a very heavy expectation that they would, in fact, use virtually all that grain by midsummer.

Senator GARN. I just do not believe the effect could be that rapid for the time schedules involved. We have talked a lot about the DIA classified report, but only the sanitized versions of it. But when I got involved in looking at U.S. high technology exports to the Soviet Union more than a year ago—a long, long time before Afghanistan was ever heard about, I was engaged in a battle with Commerce over Kama River and Zil and other areas. This spring I wrote a letter to DIA, the reply to be unclassified. It came back, and despite the figures they may quote on the reductions, they also flatly stated in that letter that neither the embargo of high technology, nor grain could be effective unless it included Eastern Europe.

So, for whatever that is worth on the record, Mr. Chairman, DIA does not feel an embargo against the Soviet Union can be effective unless it also includes Eastern Europe.

It also bothers me, particularly with high technology, that until the blatant invasion of Afghanistan, nobody listened about the cases of Soviet diversion, in violation of U.S. export regulations. There are a lot of us who were talking about CoCom and the way

the Commerce Department was biased to allow American business to sell products. I am in favor of lessening the trade balance, too.

KAMA RIVER SALES PROBLEM

Really, no notice of Soviet diversion of U.S. technology to their military until Afghanistan. Suddenly, we held hearings of this committee last November. Nobody was too excited until the Soviets actually did something with our technology. Kama River at that time, of course, became very prominent in the news media. Even after the embargo was called, Mr. Moyer, the Commerce Department was opposed to tougher sanctions against the Soviet Union. It was only after a lot of protests from here on the Hill and other places that the sale of the second Ingersoll-Rand diesel assembly line for Kama River was canceled by the Commerce Department.

My question is: What is Commerce's intent in this situation? Yes, you stated a few minutes ago that it was not until May that a final decision was made, even after all the evidence from Afghanistan, that those trucks were being used. Can you please tell me why it took until May for Commerce to cancel that sale?

Mr. MOYER. I will be happy to, Senator Garn.

First, with respect to Kama River, the high-technology sales; second, with respect to the assembly line, respectfully I would point out that quite the contrary of what you say is true. In fact, with respect to the recommendations and the position of the Commerce Department as to the Kama River exports after the Afghanistan invasion, you will recall that in the fall of last year——

Senator GARN. Will you admit that prior to Afghanistan, some of us, particularly me, were getting very little cooperation from Commerce?

Mr. MOYER. The Kama River issue was one of a number of issues that regularly come up that involve difficult decisions about how to act on particular proposed exports of high technology equipment. That is routine; typically views differ; views of departments differ.

The Commerce Department, I would add, is occasionally advocating——

Senator GARN. Would you admit that in this case, in hindsight, that Commerce was proven wrong and that some of us who were talking about it for more than a year were right; and Commerce only acted after the Afghanistan invasion?

Mr. MOYER. Senator, the action that was taken prior to the invasion of Afghanistan was generally consistent with policies which had been established in the early 1970's.

Senator GARN. Absolutely.

Mr. MOYER. With slight variations.

Senator GARN. I am talking about the Commerce Department, not Democrats and Republicans.

Mr. MOYER. I understand. And actions up through the fall of last year were more or less consistent with those policies. They were differences on individual license applications, as one would expect—indeed, as one would hope for. The invasion of Afghanistan created a substantial new strategic situation, one of significant strategic importance that prompted a review of a number of issues, including a number of export licensing issues.

On the question of Kama River, in January—not in May—the U.S. Government, with the Commerce Department in full agreement, revoked pending license applications to the Kama River truck assembly plant. There was no issue; there was no disagreement. Those licenses were promptly revoked.

With respect to the assembly line on which action was taken in May, that presented a somewhat different situation. That assembly line represents a low-technology piece of equipment; it's not sophisticated. It's physically large, but it is unsophisticated and presents little strategic importance. There is also considerable foreign availability. The issue came up there as to whether we should take action with respect to that type of equipment.

As you know, generally speaking, validated licenses are required only for sophisticated high-technology equipment of some strategic importance. A decision ultimately was made on that particular piece of equipment for foreign-policy reasons to deny that export license.

Senator GARN. My time is up. Let me ask one followup question: Are U.S. computer company representatives still servicing U.S.-supplied computers at the Kama River facility?

Mr. MOYER. No. All computer company service personnel have been withdrawn from the Kama River plant. No servicing of any nature of the data processing installation has been performed at the plant by American computer firms' personnel since the beginning of the embargo. Neither have they provided any parts, supplies, or technical data to the Kama plant.

Throughout the period of the embargo, a Western engineer from another, noncomputer company has continued, in partial fulfillment of the residency/safeguards requirements, to check daily to see that the computer was physically present. He is neither authorized nor qualified to provide any technical support to the computer.

Our policy with respect to servicing and maintenance is to review each license request on a case-by-case basis. Servicing requirements are two-edged: They provide service and maintenance for equipment in place; they also provide us with useful sources of information. We are reviewing each request. I believe I am correct in stating—and I will supply you with additional information if I am, in fact, not correct—that we have not, since January, licensed or approved any spare parts or maintenance visits to Kama.

Senator GARN. But the representatives have still been going. You have not stopped them. Is that what you are telling me? Are U.S. business representatives still servicing computers and are the Soviet computers still working?

You see, my point is: This is supposedly—and not in my definition—the greatest threat to world peace since the end of World War II, as we have heard over and over again today. We have heard from the State Department how we are really punishing the Soviets. "Boy, are we tough. We can't stand by and watch naked aggression." But Kama River trucks were used in Afghanistan. Whether it is low technology or not, it took Commerce until May, as you have so testified, to decide to cancel the second diesel engine assembly line to Kama River.

Well, I do not care whether it is low technology or not; it produced trucks that carried Soviet soldiers into Afghanistan to kill Afghans.

Mr. MOYER. And no licenses to that plant have since been approved.

Senator GARN. It seems to me that we should not keep those lines open by servicing computers. Let them break down. If we are really going to be tough, let's be tough. Let's quit kidding ourselves and get away from the rhetoric and let their assembly lines break down.

My time is up, Mr. Chairman.

[The following letter was received for the record:]

U.S. DEPARTMENT OF COMMERCE,
Washington, D.C., September 4, 1980.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: At the Senate Banking Committee's hearing on August 20, 1980, on the subject of the effectiveness of U.S. trade sanctions against the USSR, Senator Garn asked whether U.S. computer company representatives are still servicing U.S.-supplied computers at the Kama River facility. I have obtained additional information on that point which I believe is responsive to Senator Garn's question.

All computer company service personnel were withdrawn from the Kama River plant in early January. American computer firms' personnel have provided no servicing of any nature of the data processing installation at the plant since then. Neither have they provided any parts, supplies or technical data to the Kama plant.

Throughout the period of the embargo, a Western engineer from another, non-computer company has continued, in partial fulfillment of the residency/safeguards requirements, to check daily to see that the computer was physically present. He is neither authorized nor qualified to provide any technical support to the computer.

We have inserted material to this effect in the record of the hearing, but wished to apprise you specifically of these facts. I have sent a copy of this letter to Senator Garn.

Sincerely,

HOMER E. MOYER, Jr.,
General Counsel.

The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. I know it's getting late.

I would tend to agree with Senator Garn: If we're going to be tough why didn't we cut off all the sales of grain to the Soviet Union?

But I would like to say, Secretary Bergland, that I think that you and the Department of Agriculture have done an admirable job in trying to put the best face on this argument. I would agree with you that, certainly, in agriculture it does take time for cycles to work their way through the system and be felt. Certainly, grain prices are going to improve in this country because of the drought, and we're beginning to see the reflection of that and will continue to in the fall.

But what we're trying to decide here today, it seems to me, is the impact that this has had on the Soviet Union and their military action and foreign policy. And what really concerns me is not just the effect on agriculture, which, of course, is a special concern, but more that we have deluded ourselves regarding the effect of the actions we have taken.

SOCIAL UNREST AND DISOBEDIENCE

There has been social unrest and disobedience in the Soviet Union, but I would like to ask you what impact you feel this has had as far as the Soviet Union's actions anywhere else, and do you see them taking any action that will be a response in Afghanistan or in their foreign policy as a result of that social unrest?

Secretary BERGLAND. Senator, that's beyond my scope of knowledge. I yield to Secretary Cooper.

Mr. COOPER. I think that it is not that we Americans are deluding ourselves about the effect of the actions. I think that the actions the President took in January, in particular, the partial embargo on grain, which was the most dramatic single element of that, was recognized throughout the world as a serious consequential act. We do not have, it has to be admitted, we do not have enormous leverage over the Soviet Union. Our one outstanding leverage is nuclear war, which one does not want to use lightly. Short of that, we do not have big trade relations; it's a fact of life. We have maintained a good deal of distance from the Soviet Union over the years, so that the relations are not thick. Our leverage is relatively limited.

In that kind of context, I think that certainly in Europe, in the Middle East, in Japan, the actions which the President took in January, including particularly the partial embargo on grains, was recognized as a serious consequential response short of war. And in that respect, I don't think we're living in a dream world in which we alone believe that we've had an impact on the Soviet Union.

Senator KASSEBAUM. I would really disagree very much with you, Secretary Cooper. You really didn't answer, I guess, what I was asking.

Do you see that the Soviets have moderated their policy in any way because of that action?

Mr. COOPER. I would not want to leave the implication that either now or in January or February we had enormously high expectations that the Soviet Union would actually change its policy. We didn't know how the Soviet Union would respond. The important thing at that time was to indicate as clearly and decisively as we could how strongly we felt about this aggressive action. We did that diplomatically; we did that in tangible actions. The Soviet Union has showed itself in the past to be relatively insensitive to world opinion, and it was just a guess how they would respond in this particular instance.

Certainly, we do know that in the last 8 months they have increased, not reduced, the troop levels in Afghanistan.

Senator KASSEBAUM. What does that indicate?

Mr. COOPER. It indicates that they're having difficulty and they are willing to put more resources at the present time into solving their difficulties.

Senator KASSEBAUM. It certainly does. I don't think it shows, certainly, that the embargo has had an impact on making them think they should withdraw from Afghanistan.

With Senator Garn, I supported the action at first. But there have been so many conflicting figures that it is hard for us to understand what impact it has had. The figures I have are that only 3 million metric tons have been actually withheld. Evidently,

it varies from 3 to 6. There are 40 bushels of corn in a metric ton. And assuming that only 3 million metric tons have been withheld, that's 120 million bushels of corn.

We produce more than that in the First Congressional District in Kansas, and I don't really think that taking that off production would bring the Soviet Union to their knees. And I just feel that the time has come for us to realize that unless we can have a total embargo, or even cut off all shipment of grain, then we are sending ambiguous signals. And indeed, the embargo hasn't had the impact that we had hoped or the President had hoped when he announced it.

Secretary BERGLAND. Senator, if I might comment briefly, the Soviet Union owns more cattle than we have in the United States. Several years ago, they committed to an expansion of pork and poultry, which needs feed, feed they cannot produce in their own country. They have to depend on external sources. And with the cutoff of feed from the United States, they have to scrounge, find what they could, manioc and other feeds, many of which are not as good as corn.

Senator KASSEBAUM. And they're paying much higher prices on the world market to other sources than we're able to sell our grain for.

Secretary BERGLAND. Yes, ma'am, they are. They're paying a lot more.

Senator KASSEBAUM. I agree. But I go back to my original question: Is it having any effect on moderating either their military action or foreign policy, which was the intent of this program?

Secretary BERGLAND. Senator, I can't comment on the foreign policy implications. But from the farmers' standpoint—and I've farmed all my life—I can see what they're up against when they must depend on a feed supply that's unreliable. And as long as we keep the heat on, they know that feed supply will be unreliable and they cannot make expansion plans. They don't know where to turn. So it has an upsetting effect.

The question, I guess, from the United States point of view, is should we try. Should we try to make it as uncomfortable as we can or should we not.

Mr. COOPER. I'd like to make two points, if I might. One is, as far as the Soviet Union is concerned, as I've said, they have increased their force levels, not reduced them, although it's of interest that they did reduce force levels slightly in June. But that was largely cosmetic and not substantive. They felt the desirability of making an international gesture.

Perhaps more important is that the Soviet Union has not ruled out a political solution to this problem. They haven't accepted our terms yet, but they haven't ruled out a political settlement.

The other point that I would like to make is that the Soviet Union over the years—and the last 8 months is no exception to that—has not been enormously sensitive to world opinion concerning its actions or its behavior. Our leverage over the Soviet Union, it has to be admitted, is a limited one.

On the other hand, there is a dimension to this outside the Soviet Union which is very important as well. And I think one must contemplate what the attitude of other countries, particularly

in the area, but including countries as far away as South Korea and some of the Western European countries, what the attitude of those countries would have been had there not been a sharp and tangible reaction from the United States. You can quote the word "credibility" if you like, or our willingness to take on a serious problem wherever it arises. It happened to arise in a country in which we had only very long distance relationships, namely Afghanistan. There are many countries in that area and in many parts of the world with which we have strong relationships.

I think the absence of a strong sharp response by the United States would have been badly received in those countries and would have undermined or weakened the credibility of U.S. foreign policy toward those countries. So in assessing the impact of these actions, one must not only do as Secretary Bergland has done, talked about the impact on Soviet agriculture, or as you have raised the question of the impact on Soviet foreign policy, military policy, but also the position of the other countries who are watching how the United States is responding to every Soviet move.

Senator KASSEBAUM. It would be much more helpful, I think, Secretary Cooper, as far as other nations' response, if we had had the other major grain-exporting countries really with us in this embargo. Then indeed it could have had a much more significant impact.

Mr. COOPER. Well, Mr. Hathaway was the one who was right in the maelstrom on that and he can talk about it. But we did make a serious attempt, which was largely but not wholly successful, in getting the other grain producers with us. Of course, as you know, Argentina did not restrict its grain sales.

Secretary BERGLAND. In that regard, Senator, an interesting thing is happening in the shifting trade patterns. Argentina was a major supplier of corn to Japan, Italy, and Spain. Now they've decided to divert that traffic to the Russians and we've got their customers and we're going to keep them.

Senator KASSEBAUM. Good. I hope we do keep them. But I think you would agree that there are dislocations in the market that we're going to feel for years—that just happens when an embargo goes in place. I think we would all want to certainly see the Soviet Union as uncomfortable as possible. That was the intent of the program, and the American farmer would want to see that, too. And you've certainly heard them say that to you.

But I think then the point comes: Are we ending up the scapegoat in this and still not having the impact we hoped to have? That's my question.

Thank you.

The CHAIRMAN. Secretary Cooper, you just made a statement which I don't want to let escape because it could be very significant. You said the Russians have not ruled out a political solution. Do you imply by that that we may be, if we act on this Dole resolution and overrule the embargo, we may be throwing in the towel at a time when the other side may be making a concession, may be willing to act in Afghanistan in some way, perhaps get out of Afghanistan or take some other action to meet our objectives?

Mr. COOPER. I don't want to suggest that the Russians are ready to make a concession. We don't know, frankly, what their position is. We just find it of interest.

The CHAIRMAN. But you don't rule out the prospect that they may be?

Mr. COOPER. We do not rule it out. We know that they're in serious difficulty at the present time in Afghanistan, that this is acting as a serious drain on their resources, it is weakening their position in Eastern Europe militarily, and they must worry a lot about that now with the strikes in Poland.

We note with interest that they have not excluded a political solution. I don't want to suggest anything more than that. But they have not excluded a political solution.

POLAND MAJOR EXPORTER OF MEAT TO SOVIETS

The CHAIRMAN. Let me followup on that Poland point. It's correct, is it not, or is it correct, that the Poles export substantial amounts of meat to the Soviet Union? In fact, they're one of the principal exporters of meat to the Soviet Union; they're a principal supplier of meat for the Soviet Union.

Under the circumstances, is it not true that the Polish strikers are claiming that the meat shortages in Poland have been caused by these exports?

Mr. COOPER. It is true that Poland is a major producer of meat. I'll defer to Howard Hjort on how much they export to the Soviet Union.

But it is also true that the immediate provocation of the strikes in Poland was a rise in meat prices and meat shortages. This is a tremendously politically sensitive item in Poland. It has been for some years.

The CHAIRMAN. Just as a matter of statistics, do we know whether Soviet meat imports from Poland or other Eastern European countries have increased in the past years?

Mr. COOPER. I don't know offhand. I could certainly get that information for you.

Mr. HJORT. I don't have with me the specific numbers for Poland. But it is clear that meat imports in 1979 increased sharply from the Eastern European countries. Our indications are, through all of our sources, that that high import level is continuing in 1980. We don't have any firm evidence that it is significantly different than the very high level in 1979. But a very sizable quantity of meat does go from the Eastern European countries to the Soviet Union.

The CHAIRMAN. Now, Secretary Cooper, you made a statement in your response to Senator Kassebaum, that contradicts a great deal that has been said by those who oppose the embargo. You say that the embargo would be a successful example of allied cooperation in response to the invasion of Afghanistan. You cite the situation in Canada, Australia, the European community, and so forth, all imposing restraints.

Now, take the Canadian situation. Senator Zorinsky yesterday specifically cited the fact that they're increasing their exports from 3.8 million tons in 1979 to 5 million tons this year. Obviously, that's taking advantage of the fact that we aren't shipping grain in.

On the other hand, what you say is carefully worded here. You say it would tend to limit sales to normal and traditional levels. They argue, I understand, that they made a mistake when they agreed to hold their exports to the 1979 level, because 1979 apparently was an unusually low year for exports. But they go all the way up to the 1972–73 level, which was almost a record year.

What kind of cooperation is that from the Canadians? And is there a possibility that they may agree to hold down their exports to the 3.8 level which we originally understood they would?

Mr. COOPER. There's a difference here between crop years and calendar years. We constantly have to keep that distinction in mind. Their commitment in January concerned the crop year that we were then in. Again, Undersecretary Hathaway is really the expert on this.

It will not surprise you to learn that Canadian farmers, like some American farmers, only perhaps more pointedly because Canada does not see itself as a leader in the geostrategic situation, have complained vociferously about any restraints on Canadian exports of wheat. And so the Canadian Government was under a lot of pressure.

I think it's entirely fair to say that the Canadian Government, particularly the new government—as you know, they had an election in May, a change of government—did regret limiting themselves as sharply as they did in the mid-January agreement. They have, as far as the year we're now in is concerned, they have given themselves a little more elbow room on that. But they have still agreed not to fill in behind us to an unlimited degree.

The CHAIRMAN. They are going, then, from 3.8 to 5 million tons; is that right?

Mr. COOPER. We do not know what they will do. But they have chosen some words which allows a certain amount of flexibility.

The CHAIRMAN. Mr. Hathaway, I see you're shaking your head.

Mr. HATHAWAY. There are a lot of rumors about that number. But there's been no substantiation on the part of either the grain board or the Government of Canada that that is their intent. We will be reviewing that with them periodically. But I frankly would be very surprised if those rumors turned out to be true.

The CHAIRMAN. Well, I have a statement here from the East-West Trade Council that says, according to the International Association of Wheat Growers, the Canadian Wheat Board Chief announced that Canadian exports to the Soviet Union would not surpass normal levels. Then he goes on to say it would be 5 million.

Do you consider that an authoritative statement?

Mr. HATHAWAY. I think there was a subsequent statement by Mr. Argue which clarified the Canadian position somewhat, after he had talked with the Prime Minister.

The CHAIRMAN. I'd like to ask Mr. Moyer and Secretary Cooper: Is the United States selling equipment and technology to Russia which helps the Russians develop their energy sector? If so, what are we doing about it?

It's my understanding—and we all know after these last couple of days of hearings—that farmers and taxpayers are being asked to share a burden—some farmers feel it's unfair—in order to hurt the Russian agricultural and meat system. Yet apparently the U.S.

Government is allowing U.S. companies to help the Russians to develop their energy sector. It's a very critical sector of the Russian economy.

Why not cut off anything that would help the energy sector?

Mr. MOYER. Well, Mr. Chairman, oil and gas production equipment is under control. Subsequent to the embargo, all applications for exports of oil and gas equipment have been reviewed on a case-by-case basis, with the following perspective in mind: there will generally be a presumption in favor of granting export licenses for end-use equipment; there will generally be a presumption disfavoring approval for the transfer of technological know-how.

WELLHEAD COVERS TO RUSSIA

The CHAIRMAN. Let me interrupt to give you a specific example that Senator Zorinsky gave us yesterday. He told the committee that a London subsidiary of a U.S. company was selling wellhead covers to Russia. The sale was being financed with long-term, low-interest rate, U.S. Government money.

Do you know about that? If so, what are the details? How is the transaction allowed?

Mr. MOYER. I do not know of any such transaction. I'll be happy to inquire.

The CHAIRMAN. Would you inquire about that and let us know for the record?

Mr. MOYER. Yes, sir.

[The following note was received from the Department:]

Despite numerous inquiries, we have been unable to locate any information on this subject. We wish to be responsive to the Committee and if we can be provided with further information, we will be glad to investigate the matter further.

Secretary BERGLAND. Mr. Chairman, Secretary Hathaway has another appointment. May he be excused?

The CHAIRMAN. I think we're just about through. I shall have questions. Secretary Hathaway is excused, but we'll detain you other gentlemen for just a very few minutes.

Thank you, Secretary Hathaway, for being here. We very much appreciate your appearance here this morning.

Senator Garn.

Senator GARN. Secretary Cooper, could you tell me about the continuing exchange program with the Soviets as far as training their students in some of our best universities and technical institutes? If we are going to punish the Soviet Union, forgetting high technology, I really find it difficult to understand as I dig more into this whole problem, then why are we teaching them so that they can go home and use that knowledge against us. I am referring here to subjects such as nuclear technology and other things.

Mr. COOPER. I'm simply uninformed on the student exchange program. I'd have to provide something for you.

Senator GARN. I would appreciate it, because it is still ongoing. We are still teaching and training them. Punish American farmers, if you will, by trying to cut off Soviet grain, whatever arguments can be made for that; but I do not understand why, in those areas where they do not have the technology and the training facilities we have, we continue to instruct them through the student exchange program.

I could not justify it before Afghanistan, but after it I find it extremely difficult to understand at all.

I understand also that the U.S. National Institute of Health provided the Soviet Union with plans for P-4 and P-3 lab facilities, which certainly can be utilized for biological warfare reseach and production. Do either one of you know about that?

Mr. COOPER. I don't know about the particulars. I do know that we have continued scientific exchanges with the Soviet Union on a technical level, on an assessment that the exchange continues to interest us. We, after all, do not have a monopoly on knowledge in the world, and there are some areas—I can't speak to these particular ones because I don't know about the cases involved--where we feel we get as much as we give in terms of the technology exchange with the Soviet Union in terms——

Senator GARN. But we are dealing with the most active aggression since the end of World War II, but we continue technological training? I am sorry, I just do not understand the State Department's position.

The Chairman is correct: the State Department's position was carefully worded. It always is. In 6 years here, I have never seen a statement out of the State Department that I believe deals with the real world, that is not couched to cover every eventuality. Just like the Weather Bureau: a 30-percent chance of rain. Either way you are safe.

In all of the State Department opinions I have heard here you are covered—whatever happens, well, we said that. In 1977, Mr. Moyer, Commerce and State supported the sale of computers to Zil, even though DOD stated at that time that 25 percent of Zil's 225,000 annual vehicle production went to the military, as well as 100 missile launchers produced each year. That was considered acceptable, and DOD was ignored when they said 25 percent of that was going to the military. Could I have an explanation of State's and Commerce's rationale in overriding the military?

Mr. MOYER. I cannot address this specific decision without more detail. I might point out, however, Senator, that as a matter of law the State Department and Commerce Department cannot override the recommendation of the Department of Defense on a question of national security exports.

The Defense Department's statutory right under the Export Administration Act amounts to a veto. Any issue on which the Defense Department recommends against export for national security reasons automatically is escalated to the President if State or Commerce disagree.

Senator GARN. In my investigation the way our national security export system operates, normally foreign policy controls have been used to override Defense many more times. Let me ask you one more question because time is brief.

INVESTIGATION PERFORMED BY GAO

Because of my year-long work on this subject, I was not satisfied with a lot of the answers I was getting from Commerce. I asked GAO to perform an investigation of our export functions in these areas.

As a result of the preliminary investigation, I, as you probably know, have introduced a bill which will not see the light of day this year, but I tell you now that it will be reintroduced in January and will be fully pushed to take export control out of Commerce, which is biased toward business, and make it a separate agency with many changes. And I do intend to push that.

But the thing that disturbs me more than anything else, is that ever since GAO began the investigation at my request, of the deficiencies in the U.S. national export control system as it has been administered by Commerce, that agency has, stonewalled—and that is the only word I can use—the GAO's efforts to get information on various licensing cases.

Commerce has stated that GAO cannot have records because of the so-called deliberative process. I have had several meetings with GAO on this deliberate process. And it turns out to be a barn door which could include almost anything relevant to a thorough investigation.

I would seek Commerce's cooperation in an independent, outside unbiased investigation by GAO. Commerce should supply them with information necessary for us to determine what the export policies have been and whether my bill is a good one, whether it is a starting point, whether there is a change that should be made.

I happen to think that there are a lot of changes that should be made. It has nothing to do, again, with the Carter administration or Nixon-Ford. It has been going on for a long, long time through several administrations, and I want the process corrected. It may not be the way in my bill, but it is a starting point. Unless we can have cooperation from Commerce in supplying information to GAO, it gives me suspicions that there is something to hide. Can we expect better cooperation from Commerce in supplying GAO with the necessary information to conduct a thorough and independent investigation.

Mr. MOYER. I am not familiar with the assertion you make. I have not been personally involved with the GAO discussion. I am informed that we have worked closely with them, providing them with emormous amounts of information and, indeed, have cooperated. To the extent that that's not true, and there are problems that can be resolved, we will address those.

[The following information was received for the record:]

We have now worked out whatever problems there may have been in connection with the GAO investigation. It was never at any time our intent to "stonewall" the investigation. It appears, however, that there were some misunderstandings that have now been resolved. It is our understanding that GAO is now gaining access to any information it wishes under satisfactory conditions. We have telephoned the appropriate GAO representatives a number of times to ensure that they know whom at Commerce to contact to work out any problems that may still arise at the staff level.

Senator GARN. I would appreciate it because GAO has come back to me on two different occasions saying that they simply could not gain access to information that was needed to conduct a worthwhile investigation.

Mr. MOYER. I will be happy to follow up on that. We welcome the GAO review and have been reviewing the enforcement questions ourselves. That's a matter of very high priority.

Enforcement of export control laws—particularly dealing with high technology items, many of which are increasingly, miniature in size—is a very formidable and difficult task under the best of circumstances. We are addressing that and will continue to.

Senator GARN. Would you answer one more question? And I agree it is difficult and so on, but you have unfilled positions in DEA's Licensing and Compliance Division. Money that has been appropriated for some 30 to 35 positions has not been spent. If the job is so difficult, and particularly after Afghanistan, why doesn't Commerce fill those vacant positions so you have adequate personnel to do the job that you are supposed to do?

Mr. MOYER. I cannot speak to the specific vacancies. I can tell you that within the last several months a number of key positions responsible for the enforcement of export administration laws have indeed been filled and that an internal review has been conducted. And that that activity is underway on quite an active basis.

I'm just advised——

Senator GARN. I have some further questions. Go ahead.

Mr. MOYER. I'm just advised that in the entire Office of Export Administration the number of vacancies is now down to 20. I think that's a substantial reduction from what it was several months ago.

Senator GARN. Well, it is a reduction of approximately 15. There are still 20 vacancies, and we have got a job to do after Afghanistan. There are appropriated funds. So it would seem to me Commerce would fill those positions. I am sure there are plenty of people who would like jobs.

In conclusion let me say that during these hearings I believe there are a lot of questions that have not been answered, a lot of difficulties with information. Senator Lugar, besides being a member of this committee, is also a member of the Agricultural Committee and the Foreign Relations Committee. And on his behalf, I would just suggest that he felt, and I would support his request, that there probably should be additional hearings in possibly the Agricultural or Foreign Relations Committees.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. I have no further questions other than just to say again, I'm very appreciative of Secretary Bergland and the Department of Agriculture's efforts to help certainly me and my office understand this problem.

The CHAIRMAN. I just have one question. That is, we haven't gotten any figures or statistics or estimates as far as I know, on the effect of this embargo on the American taxpayer. You're probably in the best position to tell us how much this is costing our Government, or likely to cost it so far.

Secretary BERGLAND. Yes, Senator, I have those numbers. May I yield to Howard Hjort?

Mr. HJORT. Mr. Chairman, you will recall that we earmarked $2.8 billion for fiscal years 1980 and 1981. At the present time, it is somewhat below that.

The CHAIRMAN. Give me that figure again.

Mr. HJORT. $2.8 billion were made available. At the present time, the total outlays are about $2.2 billion. That consists of about $975 million for the purchases of wheat and corn.

If you will recall, we purchased wheat for the security reserve and we purchased corn because too few farmers were eligible for the farmer owned reserve. We simply had to get it out of the markets so that those prices could be strengthened.

The CHAIRMAN. So, as far as that which is your major expenditure, do you regard that as an investment?

Mr. HJORT. That is an investment.

The CHAIRMAN. You will expect to sell that at some later time?

Mr. HJORT. At a profit.

Secretary BERGLAND. The prices on corn have already increased by 60 cents a bushel.

Mr. HJORT. The second item is about $730 million advanced to farmers who decided to put grain into the farmer owned reserve. We, of course, will get all of that money back also, as they redeem it from the reserve at a higher market price.

The CHAIRMAN. Can you get it back with interest?

Mr. HJORT. Some of it. But most of it, not with interest, because we waived the interest.

The CHAIRMAN. How much interest will you forego? How long a period will that be, do you believe, will that be out?

Mr. HJORT. It depends upon the basic world supply/demand picture. But right now it looks like most of that will be coming back in fiscal year 1981.

The CHAIRMAN. So the loss there will be maybe 10 or 15 percent?

Mr. HJORT. At most.

The CHAIRMAN. All right.

Mr. HJORT. The third, in connection with the contract obligations. Those at the present time are estimated to cost about $475 million. That's the loss that we are absorbing in connection with assuming the contractual obligations to prevent a drop in the market price immediately after the actions were taken. And it includes the costs of rolling some of those contracts forward to a time when we could move them back into the market without disrupting the marketplace.

The CHAIRMAN. That is an actual expenditure and loss. Then would you say we could reasonably conclude that the overall long-term net cost to the Government of this embargo is about $600 million?

Mr. HJORT. That would be a fair estimate as of today, about $3 per person.

Senator KASSEBAUM. Mr. Chairman, would you yield just a minute? I'd like to ask Mr. Hjort. I have some figures from the international grain report which is published here in Washington which made the prediction, and I'd like your comment on this that over the long term we can expect a net loss of $10 billion, and the net loss this year will be $1 billion.

Mr. HJORT. I have no idea where such a figure as $10 billion would have come from. The $1 billion loss I can recall that prior to the time that market prices started moving up and it became evident that our stocks would have to be reduced rather significantly this year for feed grains and oilseeds, we though it may be that the net costs would be as much as 1 billion instead of the 600 that I am agreeing to at the present time.

But the circumstances, the basic supply/demand factors, have changed. It's clear that these commodities will move back into the market earlier than previously anticipated, and that will reduce the net cost to the taxpayer.

Secretary BERGLAND. Senator, we bought most of that corn at about $2.40 a bushel. It will not be sold back in the market until prices are above even today's levels. We'll probably have a net gain of that corn of about $1 a bushel.

IMPRESSIVE CASE FOR CONTINUING THE EMBARGO

The CHAIRMAN. Let me just conclude, as chairman of the committee, by saying that speaking only for myself, obviously, I think that these hearings have indicated, from the administration, an impressive case for continuing the embargo. I say that because I think you've made a clear case that while we have not brought Russia to their knees, obviously we didn't intend to. We have not taken actions which will force Russian troops out of Afghanistan. We didn't expect to do that. We've hurt the Russians: The strikes in Russia, the dissent in Russia, the absence of a balanced diet in Russia, are partly the result of this program.

Third, our cooperation from our allies has certainly not been all we expected, especially from Argentina. Maybe from Canada. But in general, it's been reasonably good. And it's been one of the reasons why we've had a successful experience.

The effect on our economy, I think, has been one of the big surprises here. It's been quite limited. The tax effect, as you say, is about $3 per person in this country, $600 million.

The effect on farm income is one-half of 1 percent, you tell us. The effect on prices is one-tenth of 1 percent. Obviously, our farmers are suffering now from other causes, really suffering.

The Secretary of Agriculture appreciates that very deeply. Farm income is too low and has been too low, and this certainly doesn't help in any way. But I think you made a very good case that if we're going to have a strong effective foreign policy, we're going to stand up to the Soviet Union when they take this kind of action. This is the kind of positive, tangible action we can take without involving this country in war, which has an affect.

And I want to thank you for your appearance.

Secretary BERGLAND. Thank you, Mr. Chairman.

The CHAIRMAN. The committee will stand adjourned.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Additional material received for the record follows:]

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, D.C., September 22, 1980.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: During the August 20 hearing by your Committee, you asked that the Department furnish you with additional information concerning the disposition of applications to export and re-export to the Soviet Union pursuant to the Administration's new policy.

We have not yet completed action on all of the suspended licenses. As of July 31, 1980, we had concluded consideration of 306 suspended licenses. Of the 306 cases, 181 have been reinstated, 14 were reinstated after certain amendments were agreed to by the exporter, 61 were revoked, and 50 were returned to the exporter with no

action taken because shipments had been completed, or at the request of the applicant. Of the 306 cases, none has been submitted to CoCom since the suspension action. However, 30 cases had involved interface with CoCom prior to the issuance of the original license. A total of 27 cases involved licenses that were subsequently revoked. Of the remaining three, two were cases which were simply reported to CoCom but did not require CoCom approval of an exception to the embargo. In the one remaining case, CoCom approval was required in the granting of the original license, but subsequent action by CoCom removed the commodity from control, so the license was reinstated.

You also asked whether "spare parts for computers which were shipped to Russia under the old, looser criteria (are) subject to the new, tougher standards?" The Department is considering all such applications to export on a case-by-case basis. Reflecting this policy, the Department has revoked licenses issued earlier that would have permitted computer spares to be shipped to the Kama River truck complex and to the computer installed to service the Moscow Olympics.

Should you require any additional information, please do not hesitate to contact me.

Sincerely,

ERIC L. HIRSCHHORN,
Deputy Assistant Secretary for Export Administration.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C., August 15, 1980.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The American Farm Bureau Federation, a general farm organization with membership in over 2800 counties in 49 States and Puerto Rico, appreciates the opportunity to comment on President Carter's grain embargo order of January 4, 1980, and legislation that would rescind it.

Farm Bureau has traditionally opposed, and continues to oppose, embargoes on farm commodities, except where there is a clear threat to national security. The President has stated that the invasion of Afghanistan by the Soviet Union posed such a threat.

At the time of the President's announcement, some 8,000 Farm Bureau members were gathering in Phoenix, Arizona for our 61st annual meeting. The Farm Bureau delegates at that Convention asked that certain actions be taken by the administration to mitigate the effect of the embargo. In addition to the emergency actions called for, the delegates reacted to the embargo by approving the following statement:

STATEMENT OF DELEGATES IN SESSION AT 1980 CONVENTION

"The President has terminated additional sales of grain and oilseeds to the USSR and declared that the threat to our national security resulting from the Soviet Union's invasion of Afghanistan requires this action.

"We call upon the President to explain to the American people why the actions of the Soviet Union, at this time, constitute a threat to our national security, and how the embargo of grain sales by American farmers will further American interests and protect our national security.

"In the event a national emergency exists all segments of our nation must join in making sacrifices necessary to deal with the crisis. All necessary steps must be taken to end cultural and economic contracts with the USSR. In addition, our government must take those actions necessary to ensure that all grain exporting countries support the U.S. Policy and place similar restrictions on sales to the USSR.

"Steps must also be taken by the government to equitably compensate American farmers who suffer economic hardships as a result of the President's actions.

"American farmers should not be required to endure economic hardship primarily to evidence this administration's willingness to confront the Soviet Union. American farmers will support combined efforts by all segments of our society as well as our allies to resist Soviet aggression in Afghanistan and throughout the world.

"Unless the above mentioned actions are taken, the grain embargo should be suspended."

As indicated in the foregoing statement by Farm Bureau delegates, American farmers called on the President to clearly explain the Afghanistan situation and its relationship to the national security of the American people. We also asked that all segments of our economy and our society share in the costs of any actions necessary

to counter the Afghanistan invasion. To date the only citizens who have borne the direct cost of the embargo were farmers and manufacturing firms whose business ventures were terminated and taxpayers who bore the cost of government handling of the embargoed grain and other items.

It is not unpatriotic to question whether an embargo on agricultural commodities to the Soviet Union is the most appropriate response to Soviet expansionism nor to question whether such action has proven effective. We believe that the use of food as a weapon against the Soviet Union has been ineffective since Soviet troops remain in Afghanistan with every intention of staying until control of that nation is achieved.

Except for the Administration spokesmen who find it necessary to defend the Administration's actions, the general consensus is that using food as a diplomatic weapon against the Soviet Union simply has not worked. The Soviets have substituted imports from Argentina and other supplying nations for the grain that they would have imported from the United States. For soybeans, they have substituted soybean meal from European processors.

These new sources of imports, plus Soviet grain stocks on hand, have enabled that country to maintain their meat production at approximately the same level that it would have been in the absence of the embargo. Reliable sources estimate that Soviet meat supplies are down no more than 1 to 2 percent. In addition, with the Soviet diet not yet heavily dependent on meat it is relatively simple, in the short run, for the Soviet government to maintain the cereal-based diet of the majority of the population.

Even more alarming is the shift in trading patterns that are resulting from the Soviet grain embargo which could redound to the detriment of American farmers long after the factors that prompted the Soviet embargo have been forgotten. As we expected, and we find it disturbing, long-term commitments for grain purchases from Argentina by the Soviet Union have been recently announced. We recall that Brazil was able to carve out a greater share of the world soybean trade for themselves following the experience with the embargo on U.S. soybeans.

Furthermore, the embargo has played a key factor in the precipitous decline in net farm income that is projected for this year. Not only has the quantitative restriction taken its toll in the international pricing of grain, but the adverse market psychology further depressed prices from the very day of the embargo announcements to the present by signaling that grain embargoes will continue to be used as a foreign policy tool. Fortunately, in recent weeks there has been some improvement in market prices resulting, primarily, from adverse weather factors. Grain producers who were forced to sell in the embargo-depressed market certainly welcome recent grain price strength to offset earlier losses.

In view of the price-depressing effects of the embargo, and the likelihood that, as time passes, it will be even less effective in keeping grain supplies from the Soviets and that trading patterns will shift even further to the disadvantage of the U.S. farmers, we ask that measures other than grain embargoes be used to respond to the Soviet aggression against Afghanistan. We request that the Embargo on farm commodities to that country be lifted and that we expand grain sales to the Soviets.

We have asked the Administration, on several occasions, to lift the embargo. If food is to be continued as a diplomatic weapon by the administration, then we will applaud any Congressional effort to legislatively preclude the use of food for such purpose.

Sincerely,

VERNIE R. GLASSON,
Director, National Affairs Division.

STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

On July 15, 1980, the Republican national convention adopted an agricultural section in its 1980 Platform which said, in part:

"We believe that the agricultural embargoes are only symbolic and are ineffective tools of foreign policy. We oppose singling out American farmers to bear the brunt of Carter's ill-conceived, ineffective, and improperly implemented grain embargo. The Carter grain embargo should be terminated immediately."

On August 13, 1980, the Democratic national convention, in its agricultural section of the Platform, said this:

"If food is to be used as an instrument of foreign policy, it is imperative that farm income be protected. Farmers must have access to free markets. Except in time of war or grave threats to national security, the federal government should impose no future embargoes on agricultural products."

On March 6, 1980, delegates to the 78th annual convention of National Farmers Union, held in Denver, Colorado, adopted this statement on the access of our farmers to world markets:

"Farmers need and deserve to be assured that they will have the right to sell their products in world markets if they are to maintain their productive capacity to serve the world market. Farmers are concerned that there have been six stoppages of United States farm exports by government action during the past fifteen years, and that the power to restrict exports is institutionalized in the Export Administration Act and the five-year U.S./U.S.S.R. grain agreement.

"Section 1002 of the Food and Agriculture Act of 1977 provides for an automatic increase in price levels to 90 percent of parity when there is a suspension of exports due to shortness of domestic supply. This is a good provision, but it does not apply to circumstances in which the stoppage is for political or national security reasons. We, therefore, recommend that Section 1002 be amended to make it immediately operable when limits are placed on exports of farm commodities for whatever cause."

The thrust of the above statements is that the nation needs to have a policy regarding export stoppages.

But, we need more than what is contemplated in S. 2855 with its brief and simple temination of the January 4th partial embargo on grain sales to Soviet Russia.

We favor the adoption of S. 2855, but it ought to be part of a broader policy assuring American farmers against unwarranted stoppages of their opportunity to sell their products overseas.

We have no expectation that, should S. 2855 become law, we will have seen the last of federal interference with farm exports.

There may be other export stoppages or suspensions for political motives. There may again be limitations on exports due to fears of shortages in domestic supplies or because of hysteria about rising food prices.

Should the increase on producer prices on crude food and feedstuffs, which was reported in July, continue unabated, there will likely be hysterical demands to shut off farm exports.

In fact, USDA officials have already begun to be questioned by the media about the possibility of an embargo to hold down food prices.

USDA's chief economist, Dr. Howard Hjort, is reported to have said, "Never—even if the Reserve is emptied, we will let the free market forces ration supplies."

Jim Williams, deputy secretary of agriculture, has said flatly, "This Administration will not support any trade curtailment based on price."

As far as they go, these statements are reassuring, but we must remember that in an earlier Administration, a Secretary of Agriculture made the same kinds of statements opposing embargoes, but that he did not make the ultimate decision. Secretary Butz was over-ruled by the Council on Wage and Price Stability, the Council of Economic Advisers and the Commerce Department. He protested but he finally concurred in the 1973 embargo on soybeans and 40 other farm commodities.

That is precisely why we recommend that there be a very specific policy, spelled out in the statutes, to make compensatory increases in farm commodity support levels, automatically triggered by export suspensions or stoppages, for whatever pretext.

As to the current embargo, the Board of Directors of National Farmers Union in a meeting here in Washington, D.C., on January 16 of this year, declared their support of the President's action of January 4th, but qualified the endorsement on the condition that the embargo be effectively enforced and that specific measures be taken to shield American farmers from economic losses due to the embargo.

These hopes were not fully realized.

Although claims to the contrary are made and repeated, it is apparent that the partial embargo has had a relatively minor effect upon the Russian level of grain imports, while having a damaging effect upon American grain producers, and a costly impact on the U.S. treasury.

From international grain reports, it appears, the U.S.S.R. will be able to import all but one to three million tons of the 33 million tons it expected to import this year. The Soviet government has had to pay more for imported grain than they had expected and their consumers have had some discomfort. But there has been no apparent change in Russia's policy of military aggression.

In late June, George W. Stone, in a letter to the President, urged him to lift the embargo on July 31, stating that its continuance beyond that date would be an "empty gesture".

It is difficult to estimate with precision what the losses suffered by American grain producers has been, but it has been significant without any question. Interestingly, the minister in charge of the Canadian Wheat Board has calculated that

grain producers in his nation lost an average of 75¢ a bushel on grain market values because of the Canadian government's adherence to a pledge not to take advantage of the American embargo.

In summation, Farmers Union believes that the current grain embargo should be terminated, either administratively or by adoption of S. 2855, but more than that is needed. The opportunity should not be lost to put in place a policy on access for U.S. farm products to world markets, assuring that access will be maintained and that automatic increases in commodity support levels be triggered when there is export interference.

JUNE 19, 1980.

President JIMMY CARTER,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Last January, shortly after the January 4 imposition of the embargo on grain sales to the Soviet Union, our national board advised you of their support of that decision taken in the national interest. A number of measures were recommended by our board to minimize the harmful effects upon farmers and their markets.

We believe that the grain embargo decision served a definite purpose, but that it is now time to consider whether its continuance is justified.

In the light of the huge U.S. wheat crop and the increased grain production in 1980 worldwide, we doubt that the embargo can be effective hereafter.

Among the major grain exporters, Canada and Australia made commitments to honor the embargo by not increasing sales over normal shipments. We sense reluctance on their part to continue that policy for long. The president of the Saskatchewan Wheat Pool has already indicated that they will not honor the embargo beyond the close of their current marketing year on July 31.

The Australians have also honored their commitment, but they are restive about alleged leakage of grain in 1979. Thus, in the nine months ending March 1980, Australia has sold 1.7 million metric tons to Russia, about ten times what it had sold in the comparable period a year earlier. Currently, the Australians have about 4 million metric tons of surplus wheat in storage.

We propose that you lift the embargo not later than July 31. To continue beyond that date would likely be an empty gesture, which would hurt the U.S. agricultural economy but have little other effect.

Sincerely,

GEORGE W. STONE.

STATEMENT BY GREGORY GROSSMAN, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, BERKELEY

My name is Gregory Grossman. I am professor of economics at the University of California, Berkeley, and a long-time student of the Soviet economy and related matters. I am very pleased to have the opportunity to submit the following remarks for inclusion in the record of these Hearings. I am doing so entirely in my private capacity.

There seems to be some misunderstanding in our media and among some of our public figures in regard to the economic effects of our grain embargo on the Soviet Union. It is sometimes said that the embargo is "ineffective", has "failed", because much of the grain denied to the Soviets by us has been seemingly replaced by other non-communist countries. (I say "seemingly" replaced, because we cannot know exactly how much the Soviets would have bought anyway from the third countries in the absence of our embargo.) This conclusion is at best hasty, as I shall try to show. It is occasionally also assumed that the Soviets can fairly easily rearrange their priorities and reallocate their resources so as to substitute from domestic production the grain that otherwise they would buy from us in future years. The assumption is of doubtful validity.

It is also argued by some in this country that the use of food as a weapon in international relations is illegitimate. That is to say, we act immorally when we deprive the citizens of another country of food, thereby jeopardizing the survival of some of them, even when the object of our embargo, the Soviet government, is killing hundreds of civilians in Afghanistan. One can certainly respect this moral stand, but, in my opinion, it is not germane in the present instance.

I

Let me address the moral argument first. Even if our embargo of 17 million tons of grain were entirely effective, the civilian (let alone military) population of the USSR would not be denied its necessary subsistence. In fact, it would still enjoy a relatively high calorie diet from the country's domestic production of grain and other foodstuffs. No one in the USSR need die of starvation because of our embargo—except through the callousness, inhumanity, or inefficiency of the Soviet authorities themselves (which all our food cannot guarantee against). The effect of our grain embargo would be almost entirely in the form of a reduction in the supply of livestock products in the Soviet Union, and primarily of meat. By dint of the embargo we are not starving people—and would not be even if it were fully effective. We are, at most, starving only Soviet livestock. In other words, the effect of the embargo is to make the Soviet diet, already heavily loaded with carbohydrates as against animal protein, even less well balanced and less palatable to the consuming public. But it would not become inadequate for human sustenance or work.

In this sense, a grain embargo against the USSR has a completely different moral meaning than might an embargo against, say, some underdeveloped country near the edge of subsistence. It may be even argued that to the extent our grain embargo indirectly diverts grain from the Soviet Union to some of the poorer countries of the world, which cannot normally outbid the USSR in the world grain market, the force of the moral argument is on the side of the embargo.

II

Yet to argue that the grain embargo even at its most effective will not cause a calorie shortage in the Soviet diet is far from asserting that it has no economic effect. I submit that the short-term effect of the embargo on the Soviet economy may be considerable, even if it is only partially effective; and, further, that the longer-term effects on the Soviet economy may be more important yet. These effects largely derive from the central position of the meat supply in the Soviet scheme of things (and, for that matter, in East Europe generally, as this summer's Polish events have once again demonstrated).

The Soviet diet has all along been drab and monotonous, and especially short of animal proteins. Soviet consumers have consistently striven to rapidly increase their purchases of meat, dairy products, and other high-value foods as their purchasing power rose. Soviet grain output took off rather quickly after the middle 1950's, and an increasing proportion of grain has been diverted to animal feed (periodically supplemented by large importation from the West). The rapid growth of effective consumer demand could be satisfied to a large extent. According to official statistics, between 1965 and 1975, consumption of meat (including fat and by-products) increased from 41 to 57 kilograms per capita per year, i.e. at a rate of 3.3 percent per annum. During the same ten years, per capita real disposable personal incomes increased, on the average, at 4.6 percent per year (estimates by M. Elizabeth Denton, OER, CIA). In other words, meat consumption increased at an annual rate about 70 percent as high as the rate of increase of real incomes (3.3 : 4.6=0.717).

Despite the rather fast increase in per capita meat supply, there existed a visible, and at times severe, persistent shortage of meat in the official stores. A considerable part of the meat consumed by Soviet people is purchased in unofficial outlets, farmers markets and black markets, where the price for equivalent quality is typically considerably higher and fluctuates freely in response to changing demand-supply balance. Some meat is self-supplied. The reason for the chronic shortage in official stores and the high prices in unofficial markets is, of course, that thanks to rapidly rising nominal incomes and the public's quest for a better diet, demand has tended always to run a few steps ahead of supply.

It should be noted that during this period the Soviet government pursued the policy of keeping official retail prices of meat and meat products fairly stable. Accordingly, the price mechanism (at least in the official market) was not allowed to regulate demand in response to changes in supply, thereby significantly complicating the government's problems. Official prices of meat (as well as other products), have been subsidized on a large and increasing scale to this day. In 1975, the total meat subsidy amounted to 11.2 billion rubles, equaling about 5.2 percent of the aggregate expenditures of the consolidated Soviet budget, and about 4.5 percent of aggregate household incomes. (In the same year, 1975, subsidies to official retail prices on all consumer goods, but excluding those to transport, housing, amounted to almost twice the subsidies to meat alone, namely, 20.1 billion rubles, according to the estimates of Professor V. G. Treml of Duke University.)

Inadequate though it has always been, the supply of meat reached a peak in 1975, and has been falling behind the growing demand since. Per capita consumption,

which—as mentioned—had been rising 3.3 percent per year in the preceding ten years, at best remained level between 1975 and 1979 (and, even without the embargo, this year would probably also show little improvement if any). At the same time, since 1975, per capital real disposable incomes have continued to rise—slower than before but still, by our rough estimates, some 2.5–3 percent per year, for a total rise of perhaps 13–16 percent over the five years, 1975–1980. Applying the already mentioned 70 percent factor, we would expect meat consumption in the current year to have reached a level 9–11 percent above that of 1975, per capita. In fact, as we just saw, it is practically the same as in 1975.

In other words, we may perhaps say that during 1975–1980 demand for meat seems to have outrun supply by some 10 percent. This is not a small gap. Indeed, our estimate of the gap may be too low for two reasons: (a) it implicitly overlooks the fact that in the base year of our calculation, 1975, there probably already was a substantial excess demand for meat in the official sector, and (b) it does not take into account the rise in the public's holdings of savings deposits, which has been much faster than the rise in personal money incomes.) Understandably, therefore, in the past five years, and especially in the past year or two, official stores have been increasingly devoid of meat and meat products, the quality of meat in such has declined, prices in unofficial markets rose sharply, and public dissatisfaction with the meat situation, always smoldering, seems to have grown markedly, by all reports.

Enter the embargo. How much would it have directly affected Soviet meat supply if it had been fully effective? Assuming that all the embargoed grain was intended as livestock feed, and assuming a conversion ratio 10:1, the embargoed 17 million metric tons would have reduced meat supply 1.7 million tons. This is approximately 11 percent of the amount of meat that would have been consumed without the embargo (estimated at 15 million tons=57 kg./head × 265.5 million persons). In other words, a fully effective embargo would have doubled (or more) the above-computed gap, thereby seriously aggravating an already grave supply-demand balance. If the embargo is only one-third effective, as some news reports have suggested, the reduction in meat supply might be of the order of 3–4 percent, still a serious matter under present conditions. Contrary to what some commentators have assumed, the grain embargo does not have to be fully, or even mostly, effective to have an important impact on the Soviet economy in the short run.

The gravity of the situation from the Soviet standpoint must be seen, of course, not only in economic terms. In the USSR—as throughout Eastern Europe—no problem has concerned the mass of consumers more than the price and availability of meat in official stores, and the price of meat in unofficial outlets. And probably no problem has been seen by the public and the rulers alike more than this one to be a leading test of the efficacy—and even political legitimacy—of the regime.

So much for short-term effects. The long-term effects, to which I now turn, may also be important.

III

The long-term effects relate to the possible rearrangement of development priorities and reallocation of resources in the USSR. It should be noted that in a country where resources have almost always been greatly strained, the last few years have seen an even greater pressure placed on them, and the near future bodes more of this yet. The main factors in the recent tendency are surely known: demographic trends unfavorable to the growth, composition, and spatial distribution of the labor force; a mounting energy shortage; depletion of a number of other natural resouces; expensive but necessary shift of investment to Siberia; continued heavy investment in agriculture; diversion of resources to environmental protection; not the least, significant slowdown in the rate of growth of capital stock, in large part for the reasons just enumerated; and, hence, marked over-all retardation in economic growth. These trends have to be seen against the background of enduring heavy commitment of resources to military ends, and within the setting of a general economic inefficiency that bodes little promise of alleviation in the foreseeable future.

Another factor may be added to this familiar list: the now apparent crisis of railroad transportation. Despite the great extension of the pipeline network and growth of trucking in recent years, Soviet railroads still account for over 60 percent of the domestic interurban ton-kilometers in the country. Their performance deteriorated markedly in the last few years: growing delays in freight shipment, frequent failures to deliver empty cars for loading, increasing loss of goods in transit (including growing pilferage to feed the black market), and so forth. Many Soviet plants have been forced to curtail production for want of transport. There have been frequent complaints in the general press and the specialized literature on this score, and some leading Soviet specialists see transport as a major limiting factor to

further Soviet economic growth in the near future (cf., Academician A. Aganbegian in "Economics and Organization of Industrial Production" (Novosibirsk), 1979:10, p. 7). The chief reasons for the railroads' plight seem to be (a) their having reached the limits of the throughout capacities of many key nodal points in the rail net, and (b) the considerable physical deterioration of the rolling stock, notably of locomotives, with insufficient replacement of equipment and chronic shortage of spare parts. To break this bottleneck the Soviets will require much capital investment, thus adding to the pressure on resources in the foreseeable future.

Again returning to the embargo, the big question over a longer term is whether it has tended to intensify the debate regarding the very heavy commitment of investment resources to agriculture, and, if so, whether it has shifted the balance on this score. In relative as well as absolute terms, this commitment has been rising since Mr. Khrushchev's day. By the early 1970's agriculture (broadly defined) came to claim as much as 27 percent of the total gross fixed investment in the economy, or 6–7 percent of the Soviet GNP (Western concept), this high level remaining steady to the end of the decade. (The figure does not include investment in rural housing and rural roads, which would raise the percentage appreciably.) The goal is clearly eventual self-sufficiency in foodstuffs, but with the large and growing claims of other sectors the policy has not been without strong domestic critics. So far, the pay-off from the enormous capital investment of the past decade does not seem to have been strikingly large, and with the increasing capital needs of other major sectors and industries—transport, iron and steel, and, of course, energy, to name a few—it is not unlikely that the commitment to very heavy investment in agriculture would continue to be viewed with doubts in some powerful quarters.

The American grain embargo has, naturally, thrown a new light on the whole question of Soviet self-sufficiency in food, and the presumed arguments of the critics—that it is better to count on imports of American grain and to invest elsewhere, where the pay-offs may be more promising—may have suffered a setback. The Soviet Union's luck this time around in finding non-U.S. sources for a large part of the embargoed grain may be less convincing to Moscow than it is annoying to Washington. It may be reasoned in Moscow either that on another occasion the Soviet need to import will be much greater than in even this bad-harvest year, and therefore U.S. *as well as* other overseas grain will be required; or that the non-U.S. sources may have less to sell in another year; or that some of them may side with a possible U.S. embargo on political grounds where this time they did not.

These arguments may well be reinforced by the darkening prospects of earning hard currency owing to the likely decline or stabilization of Soviet crude oil output in the near future and the consequent decline in Soviet exports of the commodity to the West.

It must be emphasized that should the embargo enhance the Soviet search for long-term grain independence, the near-term pressure on Soviet resources might be appreciably increased, the energy, transport, and other major bottlenecks may be aggravated, and the course of the Soviet economy significantly affected for some time to come. Exactly what solutions the present Soviet leadership—or the next one—will opt for under the circumstances of tightened resource stringency brought about by a greater allocation of resources to investment in agriculture, as posited, is more than we, or perhaps the Soviets themselves, can now foretell. But it is not unlikely that a removal of the embargo at this point by, say, a vote of Congress, which would probably lay low the likelihood of its repetition for some years to come, would signal to the Soviets that no additional major efforts to hasten the arrival of grain self-sufficiency, and therefore no additional major pressure on their resources, need be expected for this reason.

It may be added that the American farmer need not be apprehensive if the Soviets invest more in the quest of grain self-sufficiency as a result of the embargo. I believe I am correct in my understanding that most Western experts on the Soviet economy would not expect the additional investments in Soviet agriculture to be much more productive than those heretofore, and would not foresee a serious diminution in Soviet dependence on Western grain for some time to come. What is more, the very fact of intensified pressure on Soviet resources is likely to lead, on one hand, to enhanced inflationary pressure, and so to an augmentation of consumer demand for meat, and, on the other hand, to unfavorable effects on the general efficiency of the Soviet economy, and so a dilution of the pay-off from the additional investment effort.

IV

As these lines are written, Poland is in the midst of a serious crisis brought about by a chain of major strikes that were triggered by the raising of official meat prices